



Atlantic
Pilotage
Authority

Administration
de Pilotage
de l'Atlantique

SUMMARY OF 2016 – 2020 CORPORATE PLAN

ATLANTIC PILOTAGE AUTHORITY CORPORATE PLAN SUMMARY 2016 - 2020

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1. EXECUTIVE SUMMARY

1.1 Background

The Atlantic Pilotage Authority (APA) provides a valuable and necessary service to the marine community in Atlantic Canada. The highly skilled marine pilots employed by the APA make a vital contribution to the protection of the environment, to safeguarding the lives of mariners, and to preserving and promoting the economic wellbeing of ports in Atlantic Canada. A reliable and responsible marine pilotage system plays a significant role in allowing Canadian businesses to remain competitive in the global marketplace.

The APA consults widely with the shipping industry and stakeholders on both operational and financial issues. Consultations have included shipping agents, ship owners, port officials, and other stakeholders. The APA has established committees of stakeholders in many ports, and also consults regularly with the Shipping Federation of Canada and the Canadian Shipowners Association. The Authority takes advice from its stakeholders, and greatly values the open lines of communications that these consultations provide. The focus of the Authority continues to be to meet the requirements of the customers in each port at a reasonable cost, while remaining financially self-sufficient.

1.2 Summary

Operating Budget

The Authority has had two years of significant losses totaling \$1.2 million. The losses each year represent a 3% to 4% reduction from targeted profits. This surplus had been planned to cover capital loan payments and other expenditures. Between 2006 and 2013, the APA built four new pilot boats at a cost of \$12.3 million. Of this amount, more than \$6 million came from cash reserves, and \$6 million was financed. This has resulted in having very little cash reserves with which to withstand these recent losses. The Authority has had to depend upon a line of credit to meet operating expenditure requirements. In 2015, revenues are well below budget even with assignments being slightly above budget. The average size of vessels has decreased in various ports, causing less revenue per assignment and negating tariff increases implemented over the last two years. This revenue shortfall has occurred at the same time that the Authority has made an increased investment in pilot boats, and has increased pilot numbers in order to maintain or improve service levels. A further temporary increase in pilots was required to replace pilots who are retiring. This proactive approach ensures that new pilots are trained to a productive level to maintain service upon the retirement of a pilot in an area. The Authority is also supporting the launching of new weather buoys in Halifax and Saint John by contributing a portion of the annual operating costs.

The Authority intends to return to a profitable position for the five years of the planning period. Upon reviewing the tariff structure for 2016, the Authority will be implementing tariff amendments in nine ports that will provide a 2.9% increase in overall revenue. In addition, to these general increases, there will be a 1.5% surcharge on eleven ports that have employee pilots providing the service. The following chart indicates the actual results for 2014, the anticipated

results for 2015, and the budgeted statements for 2016-2020. The budgeted statements assume the tariff rates will come into effect on March 1, 2016 even though they are targeted for January 1, 2016.

STATEMENT OF OPERATIONS							
	ACTUAL 2014	OUTLOOK 2015	BUDGET 2016	PLAN 2017	2018	2019	2020
TOTAL INCOME	22,562	22,825	24,014	24,753	25,493	26,003	26,524
TOTAL EXPENSES	23,179	23,360	23,519	24,021	24,449	25,156	25,556
NET INCOME BEFORE SURCHARGE	\$ (617)	\$ (535)	\$ 495	\$ 732	\$ 1,044	\$ 847	\$ 968
SURCHARGE REVENUE	-	-	269	324	334	45	-
PROFIT (LOSS) FOR THE YEAR	\$ (617)	\$ (535)	\$ 764	\$ 1,056	\$ 1,378	\$ 892	\$ 968
RATE OF RETURN	-2.7%	-2.3%	3.2%	4.3%	5.4%	3.4%	3.6%

Capital Budget

With the launching of the latest new pilot boats in 2012 and 2013 in Halifax and Saint John respectively, the Authority's capital investment focus is now on supplying two backup vessels to these ports. The emphasis will be on acquiring well maintained used vessels that will be reliable as backup vessels. The boats being replaced are two of the Breau boats and are 40-42 years old. Expenditures for pilot boat refits and equipment continue to absorb much of the capital budget. In 2017, several boats will be scheduled for Transport Canada and Lloyds inspections, so the budget for that year is higher. The Authority's pilot office and wharf in Halifax are leased, but the future of these facilities is unclear as they are in need of repair, and may be sold within the next year. An alternate location is being examined and the plan is to move to another property in 2016. It is anticipated that the capital expenditure during 2016 will be \$2.731 million, the details of which can be found in Section 9 of this report.

CAPITAL EXPENDITURE COMPARISON							
	ACTUAL 2014	OUTLOOK 2015	BUDGET 2016	2017	PLAN 2018	2019	2020
PILOT BOATS							
CONSTRUCTION OR PURCHASE OF BOAT	-	-	1,500	1,500	-	-	-
PILOT BOAT REFIT AND EQUIPMENT	558	624	745	1,330	685	700	700
WHARVES AND STRUCTURES	9	18	385	75	125	30	30
OTHER CAPITAL ITEMS	70	55	101	95	55	35	35
TOTAL	\$ 637	\$ 697	\$ 2,731	\$ 3,000	\$ 865	\$ 765	\$ 765

Borrowing Plan

The Authority proposes to increase its line of credit to \$2.5 million and is seeking approval for this increase. At the same time, it would request that the previously approved loan for \$4 million for construction of new pilot boats be reduced to \$3 million for the purchase of two used pilot boats. This acquisition may take place over multiple years depending upon the availability of suitable boats. (See Section 11 for further details.)

2. MANDATE, MISSION, VISION

MANDATE: The mandate of the Atlantic Pilotage Authority is to establish, operate, maintain and administer, in the interest of safety, an efficient pilotage service within the Atlantic region.

MISSION: The Authority will accomplish this by providing the necessary expertise and experience, associated with the appropriate technology, to meet the needs of the industry. The Authority is committed to maximizing the use of its resources/assets to meet the goals in a safe and environmentally responsible manner.

VISION: To continue to provide an effective pilotage service throughout the Atlantic Region. In doing so, the Authority would maximize opportunities and benefit the various ports/districts and surrounding communities.

3. CORPORATE PROFILE

3.1 BACKGROUND

The Atlantic Pilotage Authority was established February 1, 1972, pursuant to the *Pilotage Act*.

The Authority is a Crown Corporation as defined by the *Financial Administration Act* (FAA) and is listed in Schedule III, Part I to that Act. The Authority is not an agent of the Crown.

The Authority has not received parliamentary appropriations since 1995 and, under provisions of the *Pilotage Act*, is not eligible for future appropriations.

The Board of the Authority consists of a part-time Chairperson and not more than six other members, all appointed by the Governor in Council.

The Chief Executive Officer (CEO) has the direction and control of the day-to-day business of the Authority. The Authority is administered and controlled at its headquarters, which is located in Halifax, NS.

3.2 POWERS

To carry out its responsibilities, the Authority has established regulations, approved by the Governor in Council pursuant to the *Pilotage Act*, in order to:

- ⇒ Establish compulsory pilotage areas;
- ⇒ Prescribe ships or classes of ships subject to compulsory pilotage;
- ⇒ Prescribe classes of pilot licences and pilotage certificates that may be issued;
- ⇒ Prescribe pilotage charges payable to the Authority for pilotage services.

In addition, the Authority is empowered under the *Pilotage Act* to:

- ⇒ Employ such officers and employees, including licensed pilots and apprentice pilots, as are required for operations;
- ⇒ Establish internal regulations for managing its operation;
- ⇒ Purchase, lease or otherwise acquire land, building, pilot boats and other equipment and assets deemed necessary, and to sell any assets thus acquired;
- ⇒ Borrow, if necessary, in order to defray the Authority's expenses.

3.3 DESCRIPTION OF OPERATIONS

Since 1972, the Authority has operated, in the interest of safety, a marine pilotage service for all Canadian waters surrounding the four Atlantic Provinces, including the waters of the Bay of Chaleur in the Province of Quebec. This is the only program of business for the Authority.

The Authority provides licensed pilots to ships that enter Atlantic Canadian Ports in order to ensure that these ships travel within the pilotage area as safely as possible. The Authority also examines qualified mariners, and issues pilotage certificates to successful candidates to enable them to navigate their ships within designated compulsory areas without a licensed pilot on board. The Authority organizes its operations according to geographic location, and has designated seventeen areas as requiring compulsory pilotage, with one further area in the regulatory process to become compulsory. The Authority also endeavors to provide pilotage service to other areas, referred to as non-compulsory areas, upon request. Most of the pilots licensed by the Authority are employees; however, pilots may also be entrepreneurs, or a member of a body corporate contracting with the Authority for pilotage services. Pilot boat services may be owned and operated by the Authority or by a private operator who has a contract with the Authority. A complete breakdown of all revenue and costs related to the pilotage service is calculated and totaled for each port and area, and summarized for the entire operation.

Demand for the services of the Authority is, for the most part, determined by the shipping industry, over which the Authority has little or no control. The Authority evaluates its performance according to the achievement of a safe, efficient, and effective marine pilotage service while maintaining financial self-sufficiency.

In addition, success is determined by how well the Authority adapts to changes in world trade, to the establishment of new business ventures, and to patterns that develop within the shipping industry. Shipping operates on market demand. The Authority does not attract ships to the Atlantic region; it merely responds to a demand that is influenced by a number of factors. These factors include changes of shipping patterns, fluctuations in demand within the world economy, volatility in oil prices, and the effect of regulatory changes by other nations.

The Authority operates within the marine transportation sector. No competition exists to provide this service in compulsory pilotage areas.

The Authority implements tariffs that are fair and reasonable after extensive consultation with the users of the service. These tariffs are designed to allow the entity to operate on a self-sustaining financial basis. In order to amend tariff regulations, the APA must pre-publish the proposed tariff amendments in the Canada Gazette. Upon publication, any interested person who has reason to believe that the proposed tariff charges are prejudicial to the public interest may file a notice of objection with the Canadian Transportation Agency (CTA). If an objection is received, the CTA may make an attempt to mediate between the parties. If the mediation is not successful and the objection stands, the CTA is required to investigate the proposed tariff charges and render a recommendation to the Authority and the Minister of Transport. The Authority is obliged to abide by the recommendation.

3.4 FINANCIAL POSITION

The Authority's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The financial position as at December 31 under IFRS was as follows (in thousands of Canadian dollars):

	2014	2013
Current assets	4,561	5,014
Non-current assets	10,642	11,475
	15,203	16,489
Current liabilities	2,423	2,699
Non-current liabilities	5,638	5,942
	8,061	8,641
Equity	7,142	7,848
	15,203	16,489

The working capital as at December 31, 2014 and 2013 was \$2,315,000 and \$2,138,000 respectively.

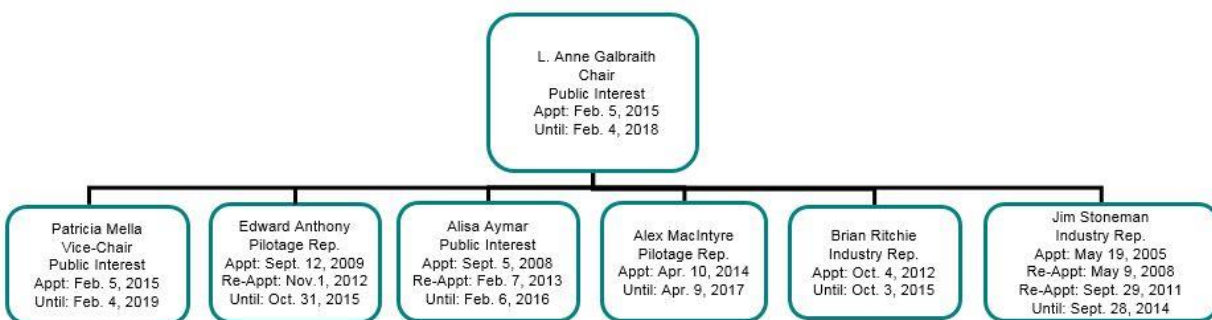
Operating Statement for fiscal year ending December 31

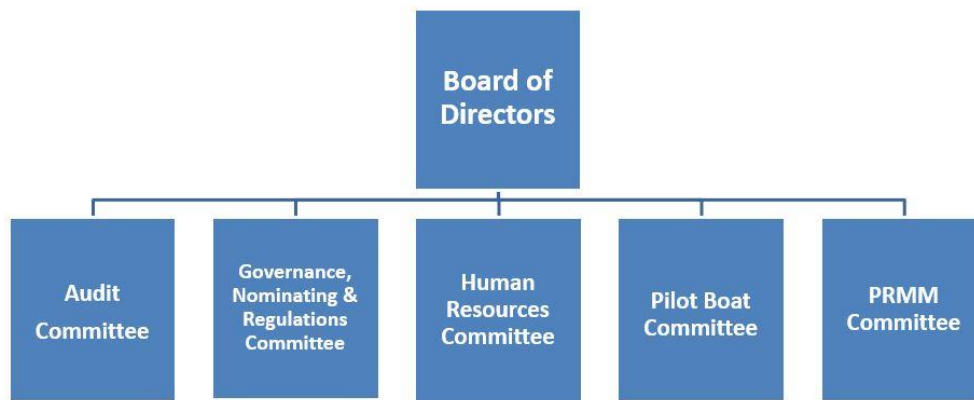
	2014	2013
Revenue	22,562	21,576
Expenses	23,180	21,475
Profit for the year	(618)	101

3.5 GOVERNANCE

The Chair and Members of the Authority (Board) are appointed by Governor-in-Council for terms of two to four years. The Board is composed of members with marine pilotage experience, members with shipping industry experience, and members representing the interests of the public at large. An effort is also made to have the Board reflect the widespread geographical area within the APA jurisdiction. This cross section of industry and business knowledge, experience, business acumen, and regional perspective provides an excellent background for the Board's deliberations. The Board has created a number of committees with specific responsibilities, and further information on these committees is provided below.

The following organizational chart indicates the composition of the Board as at September 1, 2015, followed by a chart indicating the Board committees that are in place. The Members remain on the Board until a re-appointment or replacement is made by Order-in-Council. The Chair does not serve beyond the end of their term.





Audit Committee - The Audit Committee is a core committee of the Authority's Board of Directors. The FAA specifically requires the Authority to establish an audit committee. It is responsible for the following:

- provide financial oversight for the authority;
- improve the quality of the financial reporting;
- enable the directors to contribute their independent judgement;
- create a climate of discipline and control that will reduce the opportunity for fraud;
- increase stakeholder confidence in the credibility and objectivity of corporate performance.

Governance, Nominating and Regulations Committee – is responsible for the following:

- Define roles and responsibilities for the Board and Management.
- Develop a composition strategy for the Board that identifies the skills, experience, qualifications, and diversity characteristics needed on the Board.
- Develop and maintain a profile of requirements for the positions of Director, Chair and CEO.
- Critically review management's recommendations proposing amendments to any Corporate By-Laws, Policies and Procedures and Committee Terms of References.
- Assess and make recommendations on the structure of committees for the Board, with the involvement of the Chair.
- Set standards and procedures to address conflict of interest issues and situations, investigate any specific conflict of interest concerns, and report to the Board.
- Develop and follow a rigorous process of selection of candidates to satisfy the Board's competency profile as a whole. The committee will report to the Board of Directors to obtain approval of recommended candidates.
- Critically review management recommendations proposing amendments to any regulations associated with *Pilotage Act*, General Pilotage Regulations, and Atlantic Pilotage Authority Regulations.
- Actively solicit information about significant risks and exposures to such amendments;
- Review the integrity and effectiveness of such amendments;
- Review any significant findings and recommendations made by the external and/or internal auditors regarding regulations and follow up on management's subsequent actions.

Human Resources Committee – is responsible for the following:

- Evaluation of the CEO and recommendation of compensation and benefits.
- Review management succession plans.
- Review significant changes to the organizational structure of the Authority as recommended by the CEO.
- Review the mandate for the bargaining team for collective agreement negotiations.
- Review the hiring schedule for pilot positions.
- Perform other functions as may be assigned by the Board.

Pilot Boat Committee - is responsible for the following:

- critically review management reports associated with the operation of pilot boats (either owned by the Authority or contracted), and, whenever deemed necessary, actively solicit any further information through the appropriate parties;
- critically review new technological advances related to the pilot boat, administration, pilots, or other aspects of the operation, and when necessary solicit further information through the appropriate parties;
- actively solicit information about significant risks and exposure related to pilot boats, and review the adequacy of controls and procedures to manage those risks; and
- review any significant findings and recommendations regarding pilot boat operations made by the external auditor and follow up on management's subsequent actions.

Pilotage Risk Management Methodology (PRMM) Committee - is responsible for the following:

- Ensure oversight of the process, financial and management control and practices relating to a specific PRMM.
- Critically review both facilitators, stakeholders and management reports associated with the PRMM;
- Whenever it is deemed necessary, actively solicit any further information through management or, when deemed appropriate, the facilitation of the PRMM;
- Actively solicit information about significant risks and exposures and review the adequacy of internal controls to manage those risks; and
- After obtaining sufficient information from the stakeholders' comments, facilitator's report and management recommendation, the committee will make a recommendation to the Board to ACCEPT, REJECT or AMEND the recommendation.

Travel and Hospitality Policy

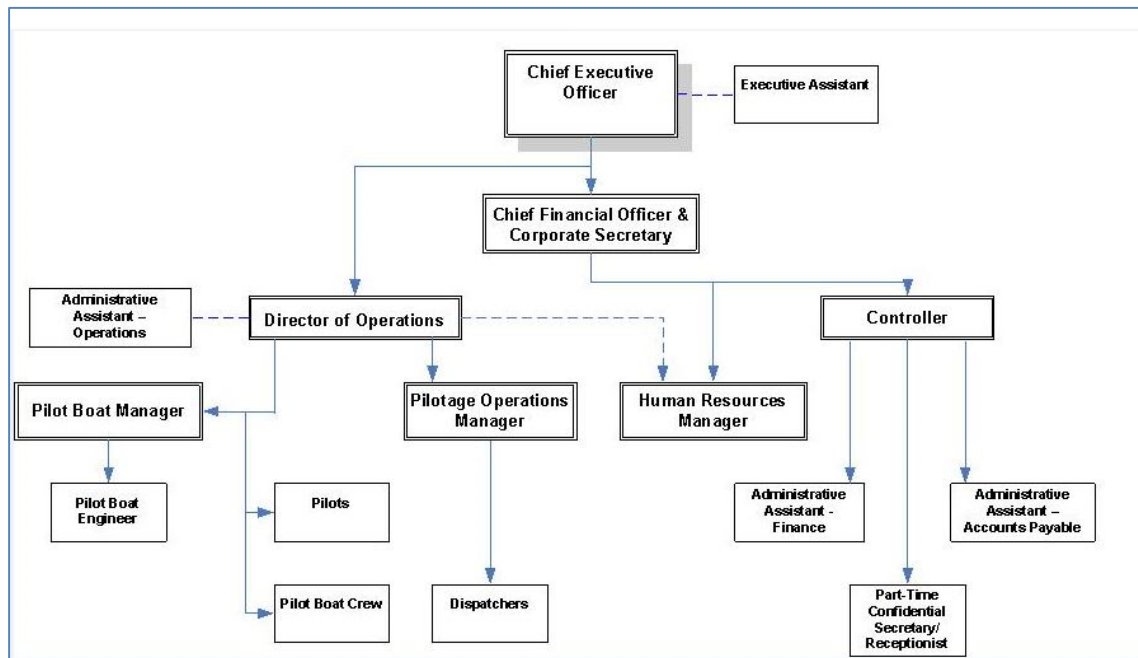
The Authority is reviewing its travel, hospitality, conference and event expenditure policies, guidelines and practices to ensure that they are in alignment with Treasury Board policies and directives. The review will be completed, and any adjustments to the current policies will be implemented before the end of 2015.

From the period that covers 2013 through 2015, the average annual cost for administrative travel is \$151,000. Hospitality costs averaged \$11,000 annually over this period, and conference costs averaged \$6,000 per year. Due to the numerous ports and areas serviced by the Authority, the vast majority of these costs are incurred to meet with customers and employees in each of the areas.

Organizational Structure

The CEO oversees the operation and management of the Authority in accordance with the Board's strategic direction. The Chief Financial Officer (CFO), reporting to the CEO, is responsible for finance and administration while also acting as the Corporate Secretary-Treasurer. The Director of Operations, also reporting to the CEO, is responsible for pilotage and dispatch operations as well as pilot boat maintenance. The Controller, reporting to the CFO, prepares budgets and provides oversight and financial analysis. The Human Resources Manager, reporting to the CFO, oversees the human resources programs and benefits. The Pilotage Operations Manager, reporting to the Director of Operations, is responsible for direct supervision of the pilot boat crews and dispatch operations. The Pilot Boat Administrator and the Pilot Boat Engineer are responsible for the maintenance of Authority owned pilot vessels. Other management and staff are employed to administer the day to day operations of the Authority. The following chart indicates the organizational structure of the administration of the Authority for 2016.

2016 Organizational Chart



3.6 Risk Analysis

3.6.1 Enterprise Risk Management Framework

The Authority has established an Enterprise Risk Management framework to identify and mitigate risks to the corporation. Risks were initially identified with the assistance of external consultants through a thorough analysis of the enterprise's environment. Any existing mitigation to help reduce the likelihood or impact of the risk was considered, and additional mitigation was identified and where practicable, implemented for each risk. This analysis initially identified 29 risks, which were reduced to 24 risk categories through refining the definitions and combining like risks. The

risks were ranked after a thorough review by the Board and Management of the Authority. It is understood that the risk categories are not static, and a regular review is required. The review may identify new risks, may determine that risks have decreased through sufficient mitigation to reduce their likelihood or impact, or may determine that the risk level has increased due to changes in circumstances.

Each of the risks is graded on two scales, likelihood that the event will occur and the impact if it does happen. The likelihood is graded from 1 – Rare to 5 – Almost Certain, while the impact goes from 1 – Inconsequential to 5 – Catastrophic.

The scoring is tabulated and the risk categories fall into one of four categories. High risk items are identified in red, medium risks are in orange, and low risks are in yellow and minor risk items in green.

RISK RANKING

Likelihood	Impact				
	Inconsequential 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Almost Certain 5					
Likely 4					
Possible 3					
Unlikely 2					
Rare 1					

Risk	Description
HIGH Red	Requires detailed research, planning and decision making at senior levels of management
MEDIUM Orange	Senior management attention and action needed
LOW Yellow	Management control responsibility must be specified
MINOR Yellow	Monitoring by Management required, further action optional

While it is important to be cognizant of all risk factors, the high risk categories demand the most priority, followed by the medium risk categories. The following risk categories were identified:

APA Risk Categories- 2015 Ranking

1	Injury to pilot/crew member while transferring	
2	Customer Satisfaction	
3	External Economic Risk	
4	Operating costs exceeding amount budgeted when tariffs are determined	
5	Loss of Launch Services causing Major Interruption of Service	
6	Governance/Organizational Structure/Succession Planning	
7	Risk of Accident Caused by Human Error	
8	Loss of Contracted Launch Services or Manning Contract	
9	Risk of being unable to Attract and Retain Pilots to meet Demand	
10	Unable to Attract and Retain Adequate and Trained Relief Pool for Pilot Boat Crew	
11	Safety Compromised due to Pilot Fatigue/Under the Influence	
12	Interruption of Service due to Breakdown in Labour Relations	
13	Risk that Employees are exposed to Injury or Illness in the Workplace	
14	Safety Compromised due to Boat Crew Fatigue/Under the Influence	
15	Fraud	
16	Loss or Misuse of Information, Data, or Other Assets	
17	APA Involvement in Non Comp Ports	
18	Safety/Service Compromised due to Interruption to the Dispatch Operation	
19	Administration Staff Coverage	
20	Safety Compromised due to Inappropriate Pilotage Area Designation	
21	Business Continuity	
22	Management Information	
23	Pilot Vessels not meeting TC Inspections	
24	Certificate Holders Evaluations	

The table below indicates the top two risks classified as high risk items with, current mitigation, and additional mitigation strategies being considered.

Risk	Description	Current Mitigation	Additional Mitigation	Summary
Injury to Pilot/Crew Member while Transferring	The risk that a pilot/crew member suffers an injury while transferring from or to a vessel. These transfers are done thousands of times annually in all types of weather conditions involving many types of vessels. It is this activity that exposes some of our employees to the greatest danger.	<p>*Pilot boats supplied by the Authority or the contractors are deemed suitable platforms for the areas serviced and are well maintained to assure proper surfaces for transfer.</p> <p>*Safety procedures are in place for the transferring of pilots, including procedures required of APA employees and pilot ladder requirements for vessels.</p> <p>*Boats are equipped with man overboard equipment, including scanners and beacons, and crews are trained to utilize the equipment and regular drills are conducted.</p> <p>*Pilots have the authority to close a port for weather watch if it is deemed to be too severe to provide the service.</p> <p>*Robust OHS system is in place with updated manuals and regular committee meetings.</p>	<p>*The Authority will look to expand the use of this scanner and beacon technology to contract pilot boats where the nature of the commute demands the precaution.</p> <p>*The Authority continues to invest in new vessels and technology to make the transfer more stable and safe.</p>	Some risk is inherent in transferring from a pilot boat to a ship. Management, pilots, and boat crews must be constantly monitoring how to make the activity safer and put systems in place to limit the consequences if someone were to fall while climbing a ladder or fall overboard.
Risk	Description	Current Mitigation	Additional Mitigation	Summary
Customer Satisfaction	The risk that APA does not monitor, review and react to the level of customer satisfaction and/or investigate non-compliance forms received from customers or incidents.	<p>*All non-compliance forms are investigated and responses provided to customers.</p> <p>*The number of these reports is presented to the Board and to customer groups. They are also reported in the APA's Annual Report.</p> <p>*Pilots are being added in an area where a lack of pilot numbers has caused service issues.</p> <p>*Added enhanced reporting to customers and pilots regarding performance.</p> <p>*Are tracking additional KPI's to measure performance and understand the quality of service being provided.</p> <p>*Increased direct communications with customers.</p> <p>*Added Electronic Source Forms to facilitate faster payments to the Authority and to agents from their customers.</p> <p>*Human resources reporting has been improved to better monitor and manage employee leave.</p>	<p>* The Authority continues to work with the Canadian Marine Pilots Association (CMPA) to have weather Buoys deployed in, Halifax, Saint John, and Canso. The buoys have been deployed for Halifax and Saint John, while Canso remains a possibility in the future. The weather readings from these buoys would help pilots and management work with agents and vessels to provide a more efficient pilotage service. This would save considerable money for industry by helping with scheduling of port services.</p> <p>*A procedure to survey masters or customers regarding the level of satisfaction with service is being considered.</p> <p>*Carry enough pilots to cover for illness and unexpected shortages.</p>	It will always be difficult for the Authority to provide perfect service 100% of the time as the organization cannot afford to staff for the peak service days without a considerable increase to tariffs. The Authority will monitor service levels closely and work with industry to provide the most efficient service possible.

The Authority has developed mitigation strategies for all twenty-four identified risks.

3.6.2 Pilotage Risk Management Methodology (PRMM)

When reviewing the possibility of designating a compulsory pilotage area, it is expected that such designation not be imposed indiscriminately. It must be the result of appropriate research and evaluation of all the facts and of meaningful consultation with the stakeholders. There must be clear justification that compulsory pilotage is warranted to enhance safety and protect the marine environment. A risk management approach for pilotage was developed that was compliant with the Canadian Standards Association CAN/CSA-Q850.

The APA has developed a two tier approach to the PRMM process. An initial high-level scan (referred to as a Phase I Review) of a broad geographic area is conducted to determine whether ports within the area require a full PRMM review. Upon completion of the Phase I Review, ports are identified for further study. A priority list of ports requiring a PRMM review is determined.

The PRMM approach provides an interactive process consisting of easy to follow steps which, when taken in sequence, provide for a consistent, transparent and well-documented decision-making process. Risk control strategies or risk reducing strategies are evaluated in terms of needs, issues and concerns of all affected stakeholders. The PRMM stresses the importance of involving stakeholders from the outset and maintaining good documentation throughout all stages in the process. This process was recommended by the Minister of Transport and the development of the process was spearheaded by Transport Canada in cooperation with the pilotage authorities.

The APA has been a leader among Pilotage Authorities in conducting PRMM studies. The Authority has conducted six full study PRMM analyses in recent years on the following subjects:

- vessel size and types subject to compulsory pilotage;
- the Miramichi River Compulsory Pilotage Area to determine if it should remain compulsory;
- the approaches to Voisey's Bay to determine whether compulsory pilotage was required;
- the St. Croix River and Port of Bayside to determine whether compulsory pilotage was required;
- the Port of Belledune to determine whether compulsory pilotage was required;
- the Port of Argentia to determine whether this port should become part of the Placentia Bay Compulsory Pilotage Area;
- the Conception Bay area in Newfoundland to determine if certain areas within the Bay should become compulsory;
- to determine whether it would be prudent to establish an inner pilot boarding station in the vicinity of Buffet Island in Placentia Bay, NL for ships in ballast.

The initial recommendation for the St. Croix River and Port of Bayside, Voisey's Bay, and the Port of Belledune was for these areas to become compulsory. Voisey's Bay did become compulsory; the St. Croix River and Port of Bayside underwent a further review and the recommendation was withdrawn as conditions in the area had changed; and the Port of Belledune was recommended to become compulsory and is currently in the regulatory process.

In 2016, the Authority will update the Phase I review of two ports in Nova Scotia. The Authority regularly monitors developments within its jurisdiction to identify areas in which circumstances have changed necessitating a PRMM review.

4. STRATEGIC ISSUES, ENVIRONMENT

4.1 KEY STRATEGIC ISSUES

The primary business activity of the Authority is to provide a safe and efficient pilotage service. The Authority charges the user, or customer, for the service.

- (i) An ideal performance would be one in which the service provided was completely safe; i.e. without shipping incidents, and without injury or damage to individuals, vessels, port facilities, or the environment. Historically, the Authority has maintained a low level of shipping incidents; however, it is recognized the Authority has the inherent risks associated with the business, and the potential for an accident is always present.
- (ii) The financial position of each port is closely monitored to avoid cross-subsidization wherever possible. Tariff increases are sought for areas that are indicating a decline in their return below acceptable levels or are no longer self-sufficient. All aspects of an area's operation are monitored to determine whether cost cutting measures are more appropriate to achieve a positive result before tariff increases are considered. For 2016, the Authority will target a rate of return on revenue of just over 3%. This rate of return is higher than that targeted in 2015. The shipping industry in Atlantic Canada has been facing significant challenges competing in the worldwide shipping economy. This has been exacerbated by the challenges presented in the energy sector, with some movement away from overseas oil priced at the Brent Crude rate to domestic North American oil at the West Texas Intermediate (WTI) price. This movement to North American oil has resulted in smaller ships on average, as the Very Large Crude Carriers are not being utilized for crude delivery to the same extent. In some instances, oil is also being brought to refineries by rail, reducing the sea-borne demand. While the difference in price between Brent Crude and WTI has been reduced in recent months, the WTI price still provides a competitive advantage, and refineries on the east coast must remain competitive with refineries in the interior of North America. The container business continues to have challenges because of the economic crisis in Europe, resulting in rationalization of trade amongst the various container lines. And because of the sluggish recovery in the United States and elsewhere, commodities such as gypsum and potash have not yet rebounded from the downturn experienced during the recession several years ago. Because of these issues, the Authority is not looking to impose more hardship on its customers by targeting them with higher tariff increases for 2016 than what are absolutely necessary.

The following Table reflects the annual average percentage increase in revenue anticipated to be derived from increased tariffs during the following periods. The present estimates for 2017 – 2020 will be affected by any changes in traffic patterns.

Annual Tariff Increases

Year	2015	2016	2017	2018	2019	2020
Average Percentage Increase in revenue.	5.28%	2.95%	3.04%	2.91%	2.00%	2.00%

The revenues generated by the tariff increases for 2014 (4.62 %) and 2015 (5.28%) have been offset by the trend to smaller ships, particularly in the oil industry. While the outlook for assignments for 2015 is 1.7% over budget, the actual revenue is expected to be 2.6% under budget. Revenue per assignment has declined by 4.2% from Budget.

Due to the financial position of the Authority, a surcharge of 1.5% is being implemented for 36 months from the date of registration and will be subject to an annual review. This surcharge is currently estimated to provide \$972,000 in additional revenue over the three years. Details of the proposed tariffs will be discussed further under section 4.4.

(iii) The Authority recognizes the following factors that are important in maintaining financial self-sufficiency:

a) *Maintaining sufficient reserves for an unfunded liability pertaining mainly to severance payments*

This liability was \$1,538,000 at December 31, 2014. The impact of this benefit will lessen in future years as it has been removed from non-union employees' benefits, has been negotiated out of two collective agreements, and has been eliminated for new employees in the third collective agreement.

b) *Maintaining the financial capacity to borrow or fund the cost of acquiring new pilot boats.*

During 2007, the Authority completed the first two boats in the pilot boat replacement program at a total cost of \$6.725 million. These boats were designed for the harsh conditions of Placentia Bay, and are deployed in that area. Construction commenced in 2011 on a third and fourth vessel. The third vessel was delivered to Halifax midway through 2012. The fourth vessel was delivered for Saint John in January of 2013. The total cost for these two vessels was \$5.8 million. The new boats have been designed for the conditions prevalent in Halifax and Saint John, and replaced older boats that have an average age of more than 30 years (see Appendix B for more pilot boat information). The Authority is currently evaluating design options and the possibility of used vessels for future pilot boats to be added to the fleet as replacements for older boats.

c) *Maintaining a reserve fund to allow the Authority to remain financially sound during economic downturns.*

During 2011, the Board of the Authority adopted a resolution providing a formula to be followed to determine the maximum amount that should be held in a reserve fund. The formula indicates that the Targeted Reserve Fund (Liquid Assets) will not exceed the budgeted expenditures per day multiplied by 122 days. When this reserve fund target is reached, excess funds will be set aside for specific capital projects as described in Section 8.5.

By focusing on the above factors, it is felt that the Authority will continue to be self-sufficient while addressing the issue of cross-subsidization among ports. The Authority is committed to providing fair and reasonable tariffs, with minimal rate increases when necessary and rate reductions in ports in which profit is projected to be in excess of requirements for the foreseeable future.

iv) Assessment of Corporate Resources

The Authority strives to maintain a highly skilled and well trained work force of pilots, pilot boat crews, dispatchers and administrative staff. The licensed pilots are professionally qualified and the pilot boat crews are well trained to conduct a safe marine pilotage service. However, the Authority constantly monitors the requirements for each port and adjusts personnel resources as necessary. Pilotage and the marine industry are undergoing rapid technological change regarding electronic equipment, propulsion systems and vessel design. The Authority continuously evaluates and modifies training programs to deal with the rapidly evolving technology.

4.2 CORPORATE STRENGTHS AND WEAKNESSES

The following are the Authority's main strengths and weaknesses:

Strengths

- ⇒ A qualified, experienced team;
- ⇒ Provision of highly efficient and professional pilotage services;
- ⇒ Recognition of the compulsory pilotage principle by most industry stakeholders;
- ⇒ Good relations with bargaining units and unions;
- ⇒ Consensus throughout the organization on the need to continually improve client service and strive for excellence;
- ⇒ Highly competitive pilotage tariffs compared with other pilotage organizations on the east coast of North America;

- ⇒ Organizational structure well suited to its mandate;
- ⇒ Equipment renewal and capital investment in recent years are positive factors in boosting productivity. These investments include the construction of new pilot boats for Placentia Bay, Saint John, and Halifax.
- ⇒ Taking advantage of new computer technology, including the following initiatives
 - implementation of an Automatic Identification System (AIS) for the dispatch centre in 2008;
 - a new website used by the public, customers, and employees in 2009;
 - dedicated Board website in 2010 to allow easier dissemination of complex reports to Board Members;
 - new financial software in 2011 allowing greater flexibility and capacity;
 - new scanning program to reduce paper copies of files in 2011;
 - design and implementation of an electronic source form submission through hand-held devices in 2012 - 2013.
 - new tablets for pilots to use as aids to pilotage on board vessels in 2014.
- ⇒ The Authority's custom designed Dispatch and Billing System provides real time information to dispatchers, pilots, customers, and management. The Authority upgraded to a new version of this software in 2008, which allowed further productivity gains;
- ⇒ Pilots are highly skilled, which is reflected in a 99.94% incident-free assignment rate during the past five complete years (2010-2014 inclusive). The incident-free assignment rate for 2014 was also 99.94% with only 5 minor incidents in the 8,472 pilotage assignments. The Authority has implemented a comprehensive training program for all pilots, and firmly supports continuing education by providing refresher training to experienced pilots, and by providing training on new technologies as they are developed;
- ⇒ The Authority has developed a disaster recovery plan that allows continuity of service in an emergency. The plan was successfully implemented in the autumn of 2003 when the Authority's head office had to be evacuated during a state of emergency after Hurricane Juan struck Halifax. The plan was also instrumental in allowing service to continue in February 2004 when a major snowstorm dumped unprecedented amounts of snow on Halifax, causing the paralysis of the city for several days.
- ⇒ The Authority has generated an Incident Management Plan to be deployed if there is a marine incident in the Authority's operational area.
- ⇒ The Authority has three large composite districts encompassing three compulsory areas in each. By using the same cross-licenced pilots for all ports, efficiencies are gained and pilot salary costs are shared, allowing each of the ports to be viable. If each were individual ports, the number of pilots required and tariff costs would be higher in the individual ports.

Weaknesses

- ⇒ Revenues are susceptible to changes in local and world economic conditions. The Authority has adjusted the tariff structures to reduce the exposure to these changes.
- ⇒ Expenses susceptible to fluctuations in commodity prices, such as fuel. The Authority has mitigated this weakness through a revision of tariff regulations to include a fuel charge that reflects market prices;
- ⇒ Some major ports are largely supported by one industry, which makes the Authority susceptible to unexpected local situations within the industry. For these ports, the Authority targets a larger return on revenue to compensate for the risk of traffic interruption;
- ⇒ Potential for objections to tariff regulation proposals that would substantially delay generating required revenues. The Authority mitigates this weakness through regular consultation with stakeholders. These consultation meetings provide an open forum for discussion which reduces the chances of objection.
- ⇒ Slow administrative process for implementing regulations, including tariff regulations. Management of the Authority works as closely as possible with the regulatory personnel in Transport Canada and Central Agencies to make the process as efficient as possible;
- ⇒ Specialized training required of a pilot means that the Authority may not be able to react quickly in the event of dramatic increases or decreases in traffic or an unexpected loss of manpower due to illness or injury. The Authority attempts to address this in some ports through composite districts with cross licensed pilots, and is considering increasing this cross licensing of pilots to include major ports. It is anticipated that this initiative would provide better service delivery in the event of short-term changes in traffic levels or the unexpected reduction in workforce.
- ⇒ Concurrent implementation of tariffs and pilotage contracts is difficult to achieve and maintain due to the process required to implement tariffs. An attempt is made to have the terms of contracts and agreements coincide with the time frame of effective tariffs expected to cover them;
- ⇒ Difficulty in forecasting marine traffic levels. The Authority consults regularly with industry while monitoring larger economic factors in order to make forecasting as accurate as possible. The actual assignments realized within the past five complete years has been within 99.2% of forecast overall.
- ⇒ The PRMM process may be very costly with no guarantee or expectation that the costs can be recovered from the port or area in question. In an attempt to control the total cost of monitoring ports while maintaining due diligence, the Authority has been conducting a preliminary review for each province to determine the ports for which a full PRMM is necessary. This review limits the APA's exposure to full PRMM project costs by providing this preliminary screening.

4.2.1 Establishment of Weather Buoys in Atlantic Region

The APA has been a strong supporter of a joint initiative to establish weather buoys in key areas in the Atlantic region. This joint initiative, known as SmartATLANTIC, is spearheaded by the Canadian Marine Pilots Association and has had the support of the APA, the Halifax Port Authority, the Saint John Port Authority, the Strait of Canso Superport Authority, Canaport LNG, and Canaport Limited. It has been endorsed by the Shipping Federation of Canada and the Canadian Shipowners' Association. The Authority does not make a financial contribution to the launch of these buoys, but does share in the annual operating costs after deployment. The APA views this as contributing to its mandate of providing, in the interests of safety, an efficient pilotage service in its higher volume ports (*Pilotage Act Section 18*). The current weather information and weather forecasts provided by these buoys provide both a margin of safety and a more efficient operation. Customers are able to see forecasts that allow them to determine whether they should make arrangements to bring a ship in, and pilots are able to more accurately judge safety margins.

In late 2013, a weather buoy was placed off Herring Cove in Halifax Harbour, and that buoy became operational in early 2014. This project was possible because of the financial support of the Governments of Canada and Nova Scotia; the research expertise of Dalhousie University; the \$60,000 annual operational contributions of the APA and the Halifax Port Authority; and in-kind contributions of the Canadian Coast Guard.

In early 2015, the new weather buoy in Saint John, NB was deployed. The capital costs of \$417,000 for this project were provided by Transport Canada (\$185,000), the Province of New Brunswick (\$91,000), Saint John Port Authority (\$91,000), with in-kind contributions from AMEC Environmental & Infrastructure, the Canadian Marine Pilots' Association, and the Canadian Coast Guard. The buoy was built by AXYS Technologies Inc. of Sidney, British Columbia. The operating costs will be shared by the APA, the Saint John Port Authority, Canaport LNG, and Irving Oil. The annual portion of these costs for the APA is \$30,000. This buoy is of great benefit to the shipping community in Saint John by providing real-time meteorological/oceanographic data to allow the production of high-resolution forecasts that are available to the public through the internet or smart phone. In addition to forecasting, the research community benefits greatly from real-time data that includes air temperature, humidity dew point, barometric pressure, wind speed, water temperature, salinity, current speed, current direction, wave height, wave direction, and wave period.

For the APA, the establishment of these buoys enhances safety and allows for more efficient use of manpower. It is estimated that, prior to the deployment of these buoys, weather-related delays cost the Halifax marine industry approximately \$2.6 million annually, with the cost in Saint John in excess of \$1 million. With more accurate and precise forecasts, the marine stakeholders will be able to have better operational planning with respect to ordering tugs, pilots, port labour, and ground transportation. It is expected that the improved planning provided by weather buoy information will allow the delay related costs to be substantially reduced.

This initiative benefits many public sector users such as Environment Canada, the Canadian Coast Guard, the Department of Fisheries and Oceans, Transport Canada, the Canadian Hydrographic Service, the Halifax Port Authority, the Saint John Port Authority, and the APA. It also benefits the private sector and the public at large through increasing the safety margin for aquaculture and fishers, recreational boaters, tourism operators, shipping lines, port terminal operators, and infrastructure and land use planners.

The APA has committed to providing funding of operating costs of a similar buoy for the Strait of Canso, NS, if other partners can be found for that area.

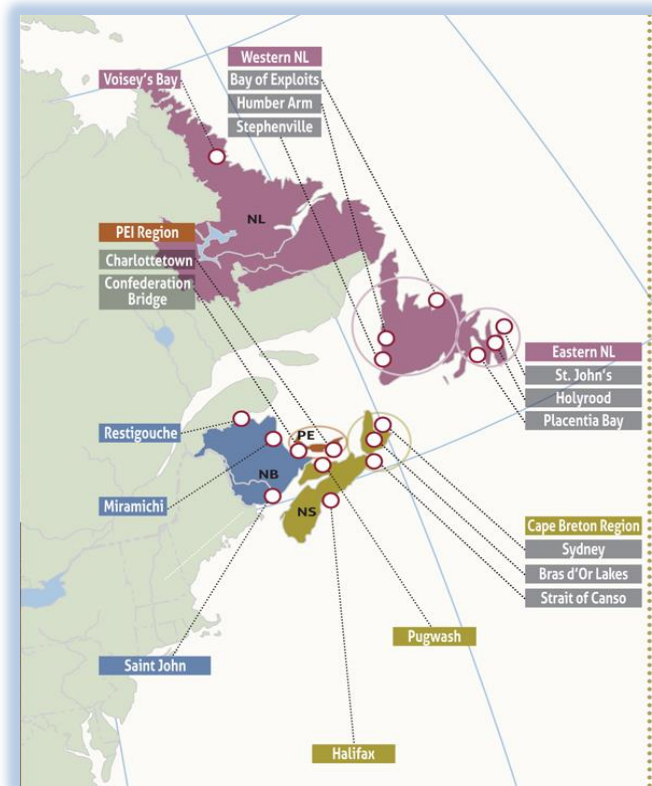
The APA believes that this initiative is vitally important in reducing risk to the APA pilots and boat crews, and would be an essential factor in improving safety of the marine environment for all those who derive their living or pursue recreational interests in these areas. The Authority commends Transport Canada for their support of the SmartATLANTIC Weather buoy initiative.

4.3 ANALYSIS OF EXTERNAL COMMERCIAL ENVIRONMENT

REVENUE AND TRAFFIC PATTERNS

The Authority provides pilotage service in the seventeen compulsory ports indicated in the below map. Pilotage service is provided to non-compulsory ports upon demand. The Authority has pilots licensed for 17 non-compulsory ports and did assignments in the majority of these areas in 2015.

Atlantic Pilotage Authority Compulsory Pilotage Areas

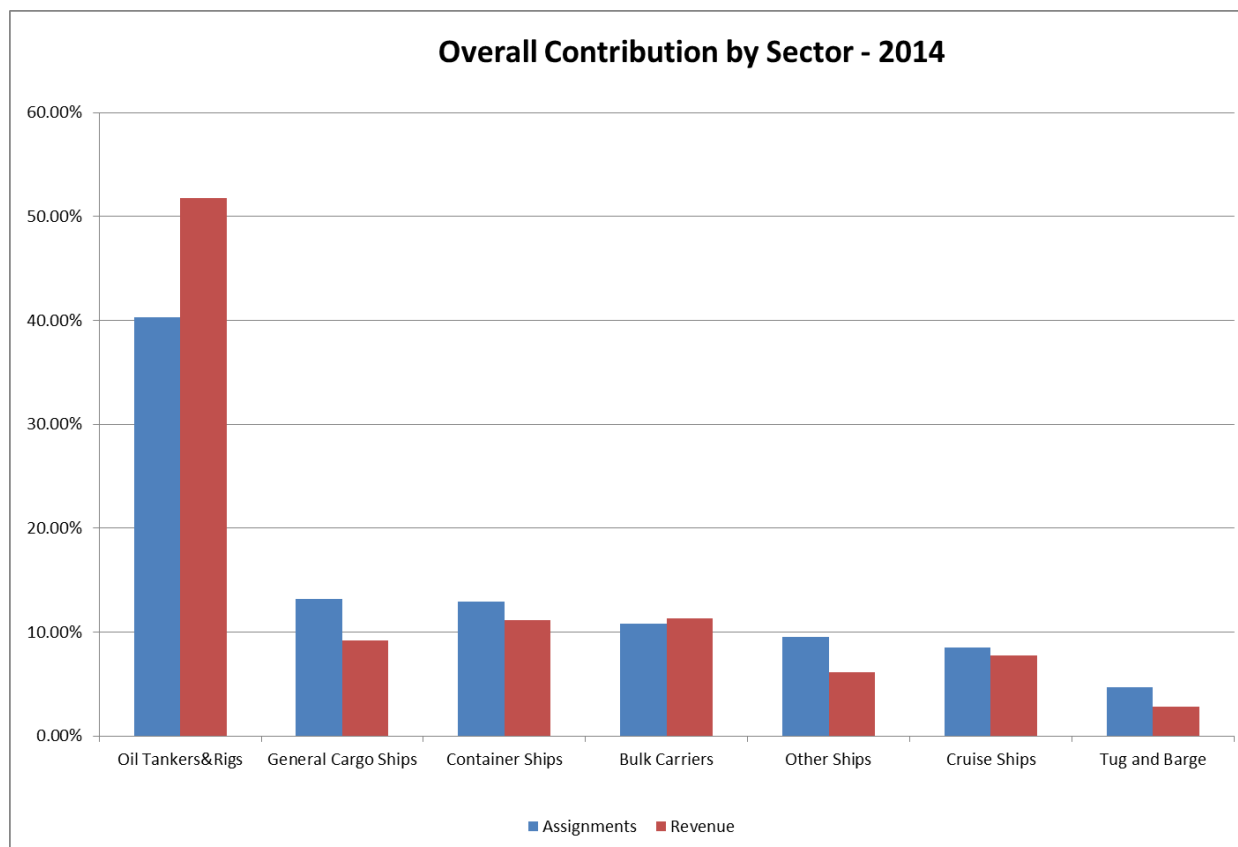


The total number of estimated assignments for 2016 is expected to be 8,464, up slightly from the projected 2015 activity levels of 8,460 assignments. The amount of activity in ports serviced by the APA can vary significantly due to factors that are beyond its control. Currently two major issues are on the horizon: the widening of the Panama Canal which will lead to a change in traffic patterns; and International Maritime Organization regulations on air pollution of ships operating near shore. The former issue may have a significant effect on container ship traffic, and the latter regulation may impact cruise ship traffic.

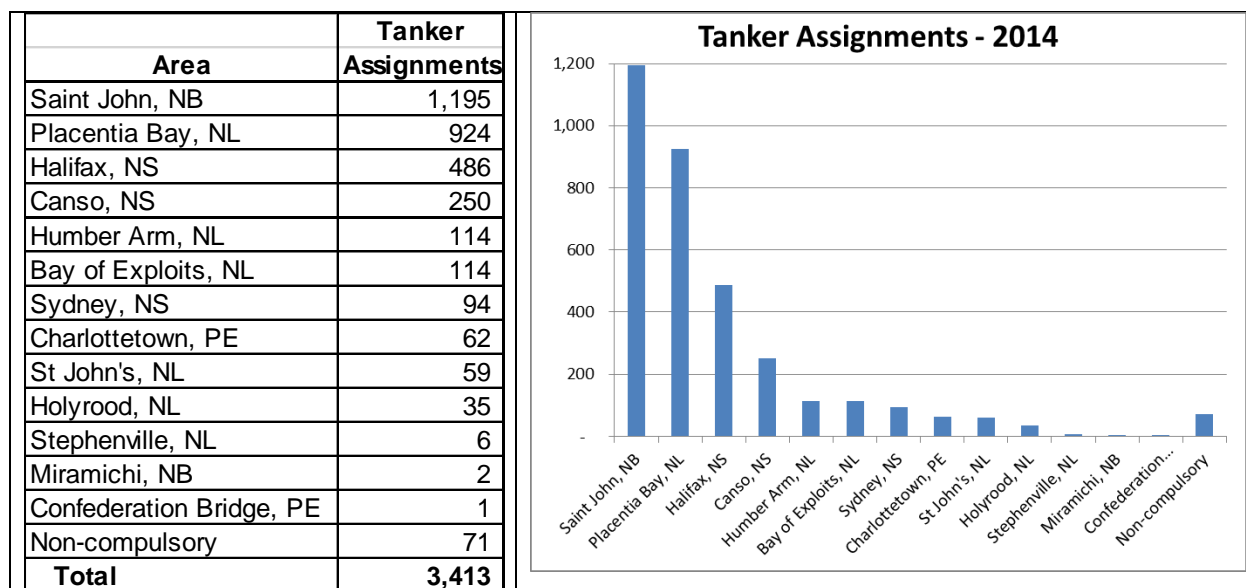
Of the 17 compulsory areas, there are four major ports that contribute approximately 73% of the Authority's assignments, and approximately 79% of revenues. These ports are Placentia Bay, NL, Halifax, NS, Strait of Canso, NS, and Saint John, NB. Much of the pilotage activity in the Atlantic Region is driven by the oil industry, with oil tankers being primary contributors in Saint John, Strait of Canso, and Placentia Bay. While tanker traffic is also important in Halifax, container ships are the primary contributor to that port which handles over 80% of the Authority's container ship traffic.

Foreign flagged vessels provide the great majority of the Authority's business. This fact has become even more pronounced after offshore supply vessels were exempted in 2006, as these vessels are predominately Canadian flagged ships. The current trend is for foreign vessels to represent approximately 77% of assignments, and approximately 78% of revenue.

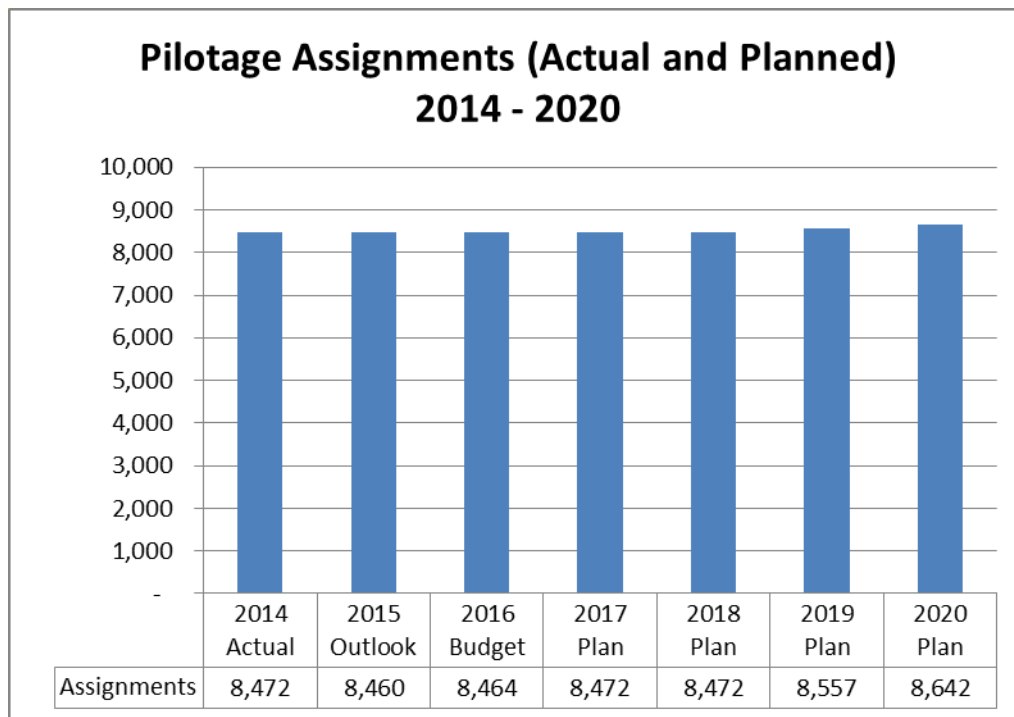
The oil and gas industry accounts for approximately 40% of the Authority's overall assignments, and contributes 52% of the overall revenue, based on current trends. The following chart indicates the overall contribution by different sectors.



The Authority performed pilotage duties on tankers in thirteen of the seventeen compulsory areas. Assignments that occur in non-compulsory areas usually are in conjunction with a compulsory assignment.

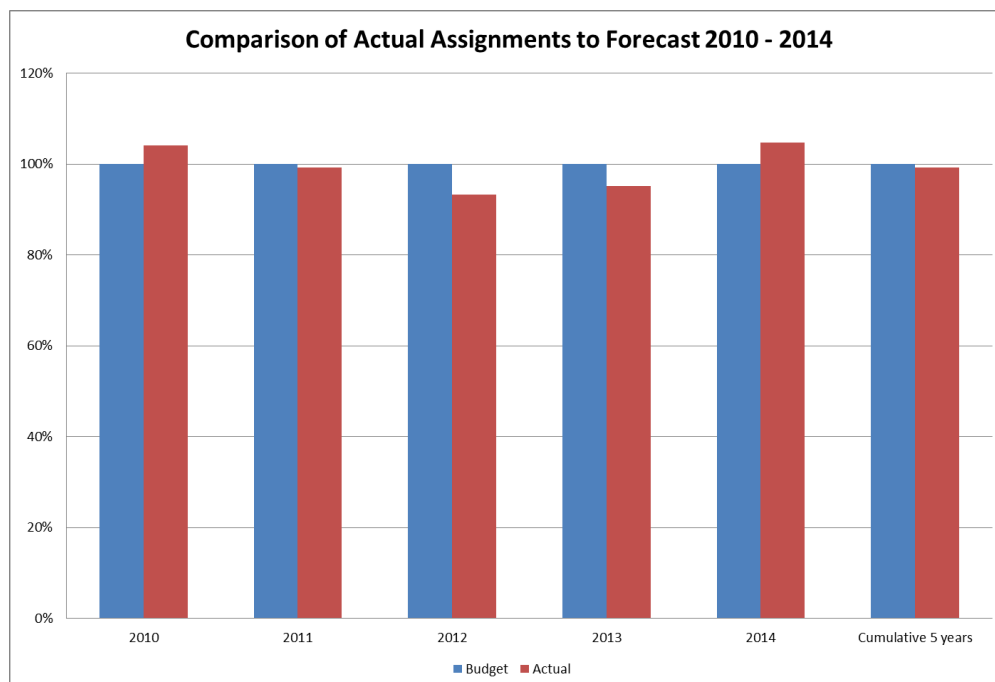


The chart below illustrates the annual assignments for 2014, the outlook for 2015, and the forecast included in the Plan for 2016-2020. Even though the Authority has experienced declines in traffic recently, this plan conservatively projects activity levels to remain constant over the longer term. There are projects being considered by industry that may grow traffic within this planning period, but the Authority is taking a wait and see stance on possible growth.



FORECASTING OF ANNUAL ASSIGNMENTS

The Authority's management conducts an annual forecasting exercise that is intended to enhance the accuracy of the financial statements and operational planning. These forecasts are compiled through management research, and after consultation with the shipping industry, port authorities, shipping agencies, and other business representatives. In many cases, the Authority may be aware that shipping activity is to commence, or to cease, but the precise timing may not be available. When forecasting for a calendar year, it is not possible to know how much of the upcoming activity will fall within the twelve month period, so the Authority must take a longer view of activity and the resources required to meet the demand. During the five complete years prior to the submission of this plan, the Authority's forecast has been 99.2% accurate compared to the actual results (assignments forecast were 43,827 while actual assignments were 43,492). The following chart indicates the results for each year, expressed in percentages, with the last columns representing the cumulative results. The forecast is charted as 100% each year in the blue column. The actual results are indicated by the red column.



4.4 ANALYSIS OF OPERATIONAL ENVIRONMENT

Tariffs

After analyzing projections for coming years, and consulting with industry, the Authority has determined that nine of the seventeen compulsory ports would require tariff adjustments to remain financially self-sufficient on a port-by-port basis and provide the service levels required by industry, without cross-subsidization. The regular tariff adjustments are as follows:

Effective January 1, 2016:

Bras d'Or Lake	10.00%
Strait of Canso	10.00%
Humber Arm	10.00%
Placentia Bay	5.00%
St. John's	5.00%
Holyrood	5.00%
Saint John	5.00%
Sydney	3.00%
Bay of Exploits	3.00%

The regular tariffs are not being adjusted for the following eight compulsory ports or areas: Halifax, Pugwash, Miramichi, Restigouche, Stephenville, Voisey's Bay, Charlottetown, and Confederation Bridge.

The Authority has absorbed losses throughout the region over the past two years which has left the organization with cash shortages as payments are made for loan repayments and other obligations.

A thirty-six month surcharge is being proposed to recover these losses and provide funding for these obligations, subject to an annual review. A 1.5% surcharge will be applied to all Minimum Charges, Unit Charges, Basic Charges, and Cancellation Charges in the following ports or areas: Bay of Exploits, Holyrood, Humber Arm, Placentia Bay, St. John's, Stephenville, Sydney, Bras d'Or Lake, Strait of Canso, Halifax, and Saint John.

The Authority conducts extensive consultation with local and national shipping interests. Committees have been formed for each of the major pilotage areas and with the Shipping Federation of Canada.

The Authority has established a Joint Committee with the Shipping Federation of Canada (SFC). The SFC/APA Committee is made up of the Chair of the Federation's pilotage committee, other members of the Federation, and the Executive Officers of the Authority. The Committee's objective is to provide a forum in which users can have constructive discussions with the Authority on operational, financial, or administrative issues, with the view to enhance the partnership between the Authority and its users. In addition to this Joint Committee, the Authority has established pilotage committees comprised of industry representatives, agents, and other stakeholders in individual ports. The Authority hosts meetings with these port committees at least twice each year, and discusses the operational and financial aspects of the individual port. These discussions contribute greatly to the Authority's efforts to maintain financial self-sufficiency by providing valuable information about prospects for changes in business in each port, and by allowing the Authority to match resources with the requested service levels.

Operational Summary

Atlantic Pilotage Authority										
	2012 Actual		2013 Actual		2014 Actual		2015 Outlook		2016 Budgeted	
	Revenue	% Change from 2011	Revenue	% Change from 2012	Revenue	% Change from 2013	Revenue	% Change from 2014	Revenue	% Change from 2015
Container Ship	2,519,973	-7.2%	2,681,247	6.4%	2,495,383	-6.9%	2,835,419	13.6%	3,315,988	16.9%
Cargo	3,951,054	-8.2%	4,018,098	1.7%	4,597,338	14.4%	4,668,615	1.6%	4,654,960	-0.3%
Tanker	10,209,773	-11.5%	10,918,262	6.9%	11,620,195	6.4%	11,537,430	-0.7%	12,324,642	6.8%
Cruise Ship	1,659,868	28.6%	1,833,149	10.4%	1,744,665	-4.8%	1,932,298	10.8%	1,992,123	3.1%
Other	1,933,249	9.3%	2,051,970	6.1%	2,041,423	-0.5%	1,818,503	-10.9%	1,693,175	-6.9%
Total Revenues	20,273,917	-6.2%	21,502,726	6.1%	22,499,003	4.6%	22,792,264	1.3%	23,980,888	5.2%
	Expenses	% Change	Expenses	% Change	Expenses	% Change	Expenses	% Change	Expenses	% Change
Pilot Salaries and Benefits	9,597,984	-1.3%	9,841,613	2.5%	10,555,137	7.3%	10,981,705	4.0%	11,256,290	2.5%
Pilot Boat and Facility Costs	7,131,902	3.9%	7,878,535	10.5%	8,249,430	4.7%	8,014,297	-2.9%	8,113,206	1.2%
Other Operating Costs	981,775	6.5%	916,741	-6.6%	1,123,147	22.5%	1,076,003	-4.2%	1,072,526	-0.3%
Training Costs	163,081	-1.6%	110,570	-32.2%	320,130	189.5%	315,173	-1.5%	315,000	-0.1%
Administrative and Dispatching	2,541,442	-3.7%	2,644,936	4.1%	2,869,272	8.5%	2,939,046	2.4%	2,728,878	-7.2%
	20,416,184	0.5%	21,392,395	4.8%	23,117,116	8.1%	23,326,224	0.9%	23,485,900	0.7%
Profit (Loss) without Surcharge	- 142,267		110,331		- 618,113		- 533,960		494,988	
1.5% Surcharge (36 months)	-		-		-		-		269,000	
Assignments	8,254	-9.2%	8,338	1.0%	8,472	1.6%	8,406	-0.8%	8,464	0.7%
Pilots	43.0	-2.3%	42.0	-2.3%	47.0	11.9%	47.0	0.0%	49.0	4.3%
Return On Revenue	-0.7%		0.5%		-2.7%		-2.3%		2.1%	
Tariff Increase	1.40%		3.80%		4.62%		5.28%		2.95%	

Overall, for the Authority, traffic has increased in recent years, but has leveled off around 8,400 assignments. This is well down from historical norms where there were over 9,000 assignments as recently as 2011. The Authority continues to invest in additional pilots for several areas. This

increased manpower is to address service levels and prepare for pending retirements. Even with this investment the total expenses for the Authority are budgeted to increase by less than 1% in 2016. The negative trend that has affected the Authority recently is that the average vessel size in a number of ports has decreased. The majority of the Authority's revenues are derived by applying a unit charge to a measurement of the size of the vessel. As the average units per vessel have declined in several ports, the total amount paid per vessel for pilotage have declined against expectations. In 2015, the average pilotage revenue per assignment has increased 2.6% from 2014 in spite of a 5.3% tariff increase. This is due primarily to the decline in units on which the tariffs are applied. The recent tariff increases have replaced lost revenue, but have not paid for the increased investments the Authority has made recently.

There are areas where the customers have requested additional pilots to improve service levels. The Authority is also adding apprentice pilots in preparation for imminent retirements. This allows a new pilot to be trained to a point where they can replace the experienced pilot upon retirement. Service is the primary concern for the users, thus the pilot numbers have been increased. This increase in manning, along with the applicable training costs, has contributed to the Authority being in a loss position in 2014 and 2015.

As previously mentioned, the Authority launched two new pilot boats, one in 2012 and one in 2013 in response to service and reliability concerns. The carrying costs and maintenance for these new vessels have increased the expenses for the Authority, but the older vessels are reaching their end of life and have to be replaced over time.

Also, as previously mentioned, the Authority has agreed to participate in a weather buoy project. A buoy for Halifax was operational in 2014 and the Saint John buoy was launched in 2015. These costs have increased Other Operating Costs for the Authority. A buoy for Canso is being proposed and its viability still to be determined.

Training costs had been reduced in prior years by postponing non-essential training. This cannot be postponed any longer. With this and the new hires needing their required training, these costs have grown from the 2013 level.

The Authority is targeting \$1 million in savings under Administrative and Dispatching over the 2016 – 2020 period; \$220,000 of these savings are targeted for 2016.

The Authority's expenses have increased, on average, by approximately 3.6% annually since 2011 due to the investments in pilot boats, technology, and additional pilots. Over this period, assignments have grown by an average of less than 1% annually. This has led to an annual erosion of financial position that has been partially offset by tariff increases. The Authority has had two years with substantial losses while making these investments to improve service levels.

Dispatch

The Authority provides dispatching services throughout its region from a dispatch centre located at its head office. The total cost of the dispatch operation in 2016 will be approximately \$643,000 and this amount has been included in the budget. The dispatching service provides significant

information and added value to pilots, customers, port authorities, and management through controlled access web pages established for each group. The web pages are continuously updated from the Authority's Dispatch and Billing System as the dispatcher enters data. Customers and pilots are able to contact dispatch by telephone, e-mail, facsimile, VHF radio, and telex. As the service evolves, it continues to increase the efficiency of the Authority's operations while adding value for customers and employees. The APA has developed the capability to monitor vessel movements in the major ports and their approaches through a computer program utilizing the AIS. The AIS is required on all commercial vessels, and the APA has also installed transmitters and receivers on its pilot boats.

Pilot boat costs

The APA has three models for pilot boat operations:

1. In the Strait of Canso, and all minor ports, a contractor provides both the boat and the crew.

The Authority prefers that all pilot boat contracts be paid on a "per trip" basis. This avoids a situation where a guaranteed annual amount of money is paid that has no relation to the number of assignments and revenue in that port. This principle is followed with a few minor exceptions to address local issues in a port.

2. In two of the major ports, Halifax and Saint John, the Authority owns and operates pilot boats, with the crew being employees of the APA.

The Authority attempts to use its own boats in the most efficient manner possible and to control costs where possible. The boat crews are APA employees and their costs do not fluctuate with activity in the port.

3. In Placentia Bay and Sydney, the Authority owns the vessels, with the manning contracted out to a local company.

The Authority requires the contractor to use the APA boats efficiently while safeguarding the assets.

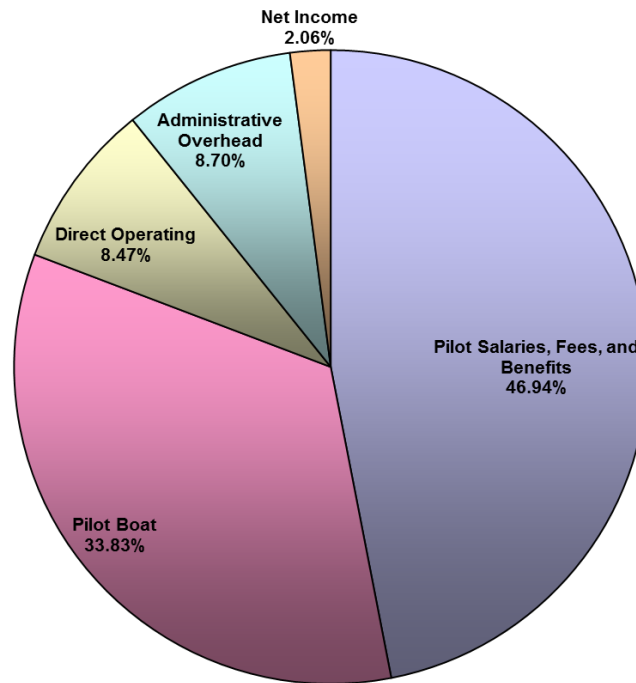
The APA prefers to have a variable cost in those ports in which a private contractor provides service. This is accomplished by having a "per trip" rate that will fluctuate with the volume of traffic.

Please see Appendix B for more information on APA owned pilot boats.

4.5 MAINTAINING FINANCIAL SELF-SUFFICIENCY

Financial self-sufficiency can only be maintained by controlling expenses, and maintaining an adequate revenue base. The following graph indicates the budgeted percentage of revenue disbursed by major categories for the 2016 Budget year. It is expected a similar distribution will be in place in future years.

Revenue Distribution - 2016 Budget



Pilot salaries are the largest cost category; therefore, the number of pilots employed has a significant impact on the Authority's finances. Potential retirements, future traffic levels, and the extended training period required are all factors to consider when planning apprentice pilot recruiting. Apprentice pilots create additional salary costs while not providing the productivity of more senior pilots. However, should apprentices not be hired, the Authority may be left without sufficient pilot strength for the level of activity in an area. Therefore, striking a balance is important.

Modest tariff increases may be necessary over the next few years to generate essential additional revenue to withstand inflationary pressures and maintain financial self-sufficiency. A thorough analysis of each compulsory pilotage area is undertaken each year, with a primary goal of providing the required service at a minimal cost. If reductions in expenditures in an area can be achieved without affecting the safety or effectiveness of the service, then this course of action is followed. If tariff increases are necessary to avoid cross-subsidization, the minimal amount of increase necessary is proposed. These increases are targeted at each area, rather than as a general tariff increase.

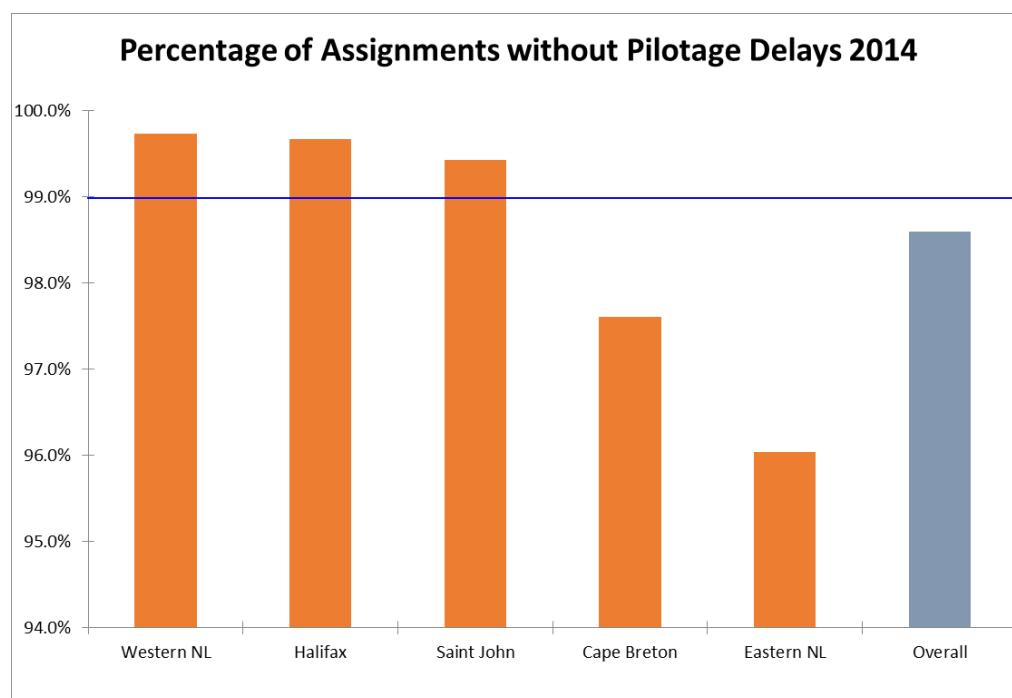
4.6 DELIVERING DESIRED SERVICE LEVELS

The Authority determines the staffing levels for each compulsory pilotage area based on the customer requirements and the expected activity in each port. Occasionally, if traffic levels peak too high, delays may be incurred. Staffing for these rare peaks would be too costly for the customers of the port. The Authority works with individual ports to deal with peak periods.

The Authority developed a structured methodology for handling complaints several years ago in response to the Ministerial Review of Outstanding Pilotage Issues. The mechanism is designed to be as user friendly as possible, and the goal of the Authority is to ensure that timely feedback is provided to the complainant. The most common reason for a complaint to be submitted was due to a delay in an assignment. In some cases, the delay is caused by factors beyond the control of the Authority, such as weather or delays caused by the non-availability of port services such as tugs.

The Authority received 71 (84 in 2013) complaints out of a total of 8,472 (8,338 in 2013) assignments during 2014. The remaining 99.2% (99.0% in 2013) of assignments were performed without receiving a complaint from the customer. All complaints received are included in the above total, including those submitted that involved delays not caused by the Authority.

The Authority's service benchmark is to provide service within one hour of the ordered time on 99.0% of assignments (excluding delays caused by factors beyond the Authority's control). In 2014, this benchmark was not achieved as 98.6% of assignments were on time (98.7% in 2013). The Authority also applies this benchmark to each individual district or port. During 2014, Eastern NL at 96.0% (96.1% in 2013) and Cape Breton at 97.6% (97.8% in 2013) did not meet this benchmark. The following chart provides the results for each port or district.



With the additional pilots added, service levels have improved dramatically in Eastern NL and Cape Breton is still being monitored. In previous years the Authority has been dealing with injury or illness in both ports that have contributed to pilot shortages. In 2015, a full Class A pilot in Cape Breton retired without much notice, leaving the district with fewer pilots than planned. Each port also has additional challenges regarding geography, weather, and pilot boat availability. It was

determined that the APA has not staffed enough pilots in these areas to withstand unexpected loss of manpower, and these losses are becoming more frequent as the workforce ages.

In Eastern NL the Authority has been very active in trying to address the problem. Pilots have been added to the area with the goal of carrying 14 in the district. The pilot boat manning contract was put to tender and a new manning company is now providing the service with fewer interruptions. The Authority is investigating the possibility of increasing the availability of the pilot boat in Placentia Bay by crewing to allow both vessels to be manned when required. This is dependent on the labour market in the area and the contractor's access to a casual employee pool.

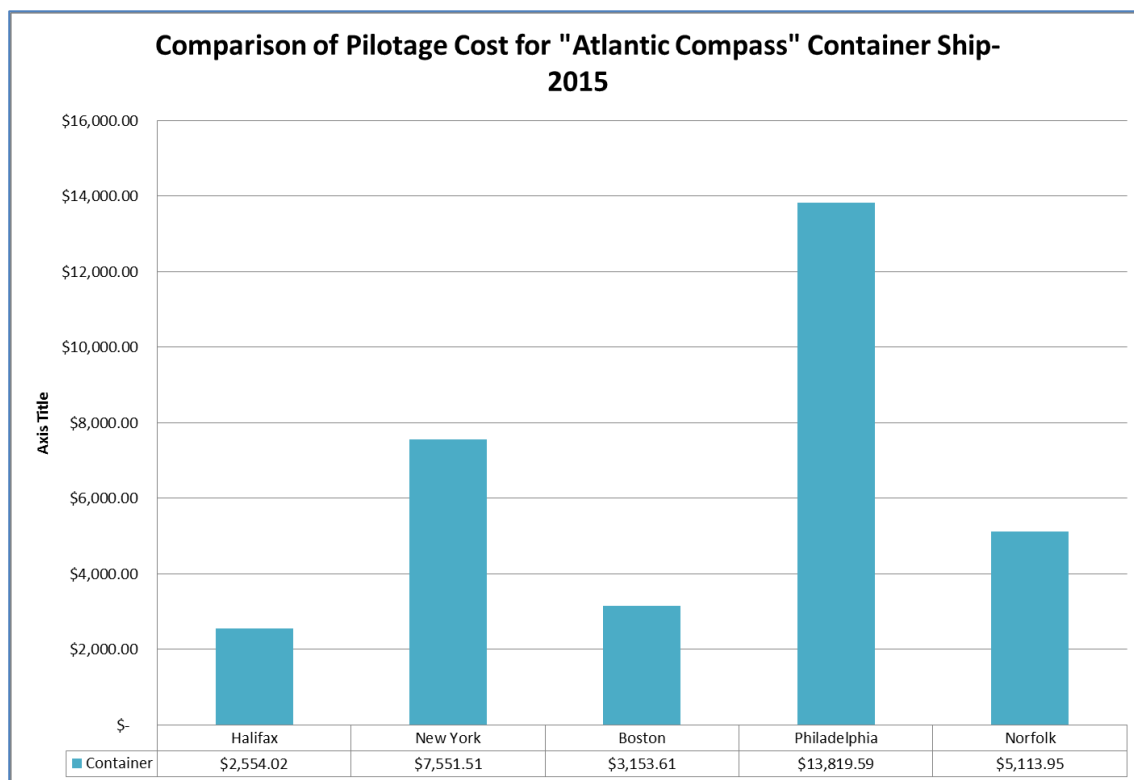
For Cape Breton, the Authority has determined that carrying only seven pilots in the area was not sufficient with the long term illness faced in the workforce. Two apprentice pilots were added late in 2014 with a plan now to add another in 2016 to replace the pilot who retired. The goal is to carry 9 pilots in the district moving forward.

4.7 COMPARISON WITH PILOTAGE COSTS ON THE US EASTERN SEABOARD

The APA does not compete directly with the ports on the Eastern Seaboard of the United States for most of the shipping handled in Atlantic Canada. Oil tankers call at ports in Atlantic Canada because the refineries are there, or because they are too large to enter ports in the US and must transship their cargo, or because they are serving the local market. Most bulk and general cargo are either delivering goods to the area or shipping out natural resources. Cruise ships are following an itinerary that is set to provide their clients with a variety of ports of call. However, container ships are one category in which there is direct competition, particularly between Halifax and some of the American ports.

It is difficult to arrive at the pilotage rates in effect at some of the US ports. The tariff information published is often incomplete (dealing with one of several aspects of the charges) or outdated. There are often surcharges for new capital investment, pension funds, mileage travelled, whether the ship is assisted by tugs, or whether the ship has certain equipment available (such as bow thrusters). Some pilotage groups base their charges on units calculated in a similar manner as ours, calculated by a formula that uses vessel length, breadth and moulded depth, some use a different unit calculation, and some use other measurements such as draft, nautical miles travelled, time on board, or a hybrid of these factors. There are usually two pilots involved in those ports, the harbour pilot and the docking pilot, with separate tariff charges for each.

The following chart compares the cost of a one way trip in Halifax for the *Atlantic Compass* with the cost for a vessel with the same dimensions in some Eastern Seaboard container ports:



The tariff for Halifax is the 2015 tariff. For New York, the calculation uses the 2009 tariff, for Boston the 2010 tariff is used, and for Norfolk the 2007 tariff is used. For Philadelphia, the 2013 rate is used for the main pilotage, but the 2007 rate is used for the docking pilot. In the interest of fairness, it should be noted that the Philadelphia pilotage involves a transit of approximately 100 miles from the mouth of the Delaware River.

5. OBJECTIVES AND STRATEGIES

OBJECTIVES

The Authority's strategic objectives are the following

- ⇒ Safeguard the marine environment, human life, and property;
- ⇒ Maintain financial self-sufficiency;
- ⇒ Optimize the efficiency of the pilotage system;
- ⇒ Practice good corporate governance;
- ⇒ Continue to improve the quality of service;
- ⇒ Embrace new technologies;

⇒ Manage human resources effectively.

INVESTMENT STRATEGIES

The Pilotage Act in Section 37 reads as follows:

“An Authority may, with the approval of the Minister of Finance, invest in bonds or other obligations of or guaranteed by Her Majesty in right of Canada or any province, or any municipality in Canada, any moneys not immediately required for the purposes of the Authority”.

The Authority requests approval from the Minister of Finance to invest in bonds or other obligations as specified in Section 37 of the Act.

CAPITAL ASSET STRATEGIES

To operate the Authority efficiently, investments are made in capital assets. These items are classified under two classes of assets;

- (i) Intangible assets are comprised of purchased software. When the software does not form an integral part of the machinery or computer hardware to which it relates, it is separately accounted as an intangible asset. The estimated useful lives and amortization methods are reviewed at the end of each year. The useful lives used in the calculation of amortization for purchased and internally developed software ranges from 5 to 10 years.
- (ii) The tangible assets owned by the Authority include the pilot boats and all of the equipment on board, wharves and structures, furniture and equipment (including computer equipment), and leasehold improvements. Under IFRS the pilot boats are broken down further into their major component categories and depreciated individually. Depreciation of property, pilot boats and equipment is calculated on a straight-line basis and is based on the estimated useful life of the assets as follows:

Pilot boat hulls and structures	10 to 25 years
Pilot boat equipment	10 years
Pilot boat generators	5 years
Pilot boat engines	5 to 10 years
Pilot boat inspections	4 to 5 years
Furniture and equipment	2 to 10 years
Leasehold improvements	10 years

The Authority uses past experience and current maintenance schedules to generate a repairs budget to keep these assets in good working order. When the useful life of an asset is reaching the end, the Authority will plan on replacement and build those costs into this plan. The Authority does lease office equipment and office space where prudent. The vessels used are specific use boats that are not easily found for purchase or lease. The Authority investigated the possibility of leasing vessels from when the construction of the last two vessels was contracted. It was found that the

implicit rate of interest in any lease deal was well above the cost to finance construction available to the Authority and would not have lowered costs.

MANNING LEVEL STRATEGY

Annually, the Authority determines required pilot strength for each port or district based on forecasted activity, service requirements, succession planning, and consultation with industry. Pilots are hired, trained, and licenced for specific ports or districts, and must remain current in those areas for which they are licenced. As an example, an experienced pilot licenced in Halifax, NS could not be utilized in Saint John, NB, without undergoing extensive further training and licencing in that port. This requirement that pilots have valid port-specific licences and current local knowledge of a port limits the utilization of pilots to cover assignments in another port.

The number of pilot boat crew and maintenance is based on the requirement to provide pilot transport twenty-four hours per day, 365 days per year in a safe and efficient manner. The dispatch center operates with the minimal amount of personnel required to have the center available around the clock. The management and administrative personnel levels are required to manage the business of the Authority while preparing a succession plan.

The Authority has eighty full time employees, and one part time employee. This complement includes 47 pilots, 18 pilot boat crew members (including maintenance), 6 dispatch personnel, and 9.5 management and administrative personnel. Please see Section 6 for a summary of the Human Resources budget and plan.

The Authority employs highly skilled and qualified pilots. Professional development is emphasized, and the Authority makes a significant financial commitment to ensure that the best available training is provided. The pilots are supported by competent pilot boat crews and dispatchers who work as a team to provide the best possible service to the customer. The Authority employs professional and proficient management and support staff to administer the operations.

The licensed pilots and the pilot boat crews are trained to conduct a safe marine pilotage service. The Authority monitors the requirements for each port and staffs accordingly, after consultation with stakeholders. Pilotage and the marine industry are undergoing rapid technological change. The Authority evaluates and modifies training programs to deal with the rapidly evolving technology.

6. COMPENSATION AND LABOUR RELATIONS INFORMATION

Statement of Human Resources 2012-2020

STATEMENT OF MANPOWER RESOURCES 2012-2020

	ACTUAL 2012	ACTUAL 2013	ACTUAL 2014	OUTLOOK 2015	BUDGET 2016	2017	PLAN		
							2018	2019	2020
ADMINISTRATION									
EXECUTIVE OFFICERS	2.0	2.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0
MANAGERS	3.0	2.0	2.0	2.0	3.0	3.0	3.0	3.0	3.0
SUPPORT	3.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
	8.5	8.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
OPERATIONS									
PILOTS	43.0	42.0	47.0	47.0	49.0	48.0	48.0	48.0	48.0
PILOT BOAT CREWS	17.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
DISPATCHERS	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
	66.0	66.0	71.0	71.0	73.0	72.0	72.0	72.0	72.0
TOTAL EMPLOYEES	74.5	74.5	80.5	80.5	82.5	81.5	81.5	81.5	81.5
ENTREPRENEURIAL PILOTS	10.0	10.0	9.0	10.0	11.0	11.0	11.0	11.0	11.0
TOTAL MANPOWER RESOURCES	84.5	84.5	89.5	90.5	93.5	92.5	92.5	92.5	92.5

ADMINISTRATION

The Executive Officers for 2015 include the CEO and CFO and COO positions. The COO position had been vacant since late 2011, but was staffed in February of 2014. Due to organizational changes, the COO position will be replaced with a Director of Operations position in an attempt to reduce costs in administration. The Director of Operations role is essential to the longer-term operation of the Authority and with respect to continuity planning as it adds to the marine knowledge and experience within the entity. For 2016, there will be two Executive Officers, the CEO and the CFO. The Managers of the Authority will be the Director of Operations, the Controller, and the HR Manager. Support staff includes executive and administrative assistant positions.

In the above Statement of Human Resources table, under Operations, "Pilots" and "Pilot Boat Crews" refer to employees of the APA.

PILOTS

In regards to pilots, the Authority is dealing with an older employee group that is nearing retirement. The Authority has also been experiencing more time lost due to injury, which has had a negative effect on service levels in Eastern NL and in Cape Breton. The Authority has received notice from several pilots' regarding their plans to retire. Pilots are being added as replacements

so that they can have two years of training before each pilot retires. Having a pilot retire without a suitable replacement able to compensate can have a negative effect for users.

The pilot strength in Cape Breton has been impacted by a pilot retiring on short notice. Saint John has significant business growth in its future, for which the Authority must have additional pilots added and trained. Due to the need to meet the users' service requirements, while compensating for an older workforce with pending retirements, the Authority is increasing pilot numbers with a goal of having 48 Class A pilots in 2017.

The pilots are members of the Canadian Merchant Service Guild-Pilots. A new four year collective agreement was negotiated in 2012 to remain in effect until 2016.

PILOT BOAT CREWS

The pilot boat crews encompass three groups of employees that are considered operational.

Vessel Maintenance

The Authority employs two people that manage and maintain the APA vessels. There is a Pilot Boat Manager and an Engineer. The Pilot Boat Manager position evolved from a support position in 2012 to manage the pilot vessel maintenance and manning. The addition of a pilot boat engineer took place in 2013. This addition was based on the recommendation of an internal audit that was tasked with analyzing the Authority's maintenance program and recommending actions to increase efficiencies, lower costs, and increase operating time of the vessels. The addition of an engineer allows for increased preventative maintenance which helps avoid catastrophic repairs. The Authority had an engineer on staff from the early 1970's through 2008. From the beginning of 2009 through to 2013, the duties were performed by the former engineer on a contract basis. However, as new more complex boats enter service, much of the preventative maintenance required became beyond the scope of the contractor. Much of the cost of the new engineer will be offset by a reduction in contract engineering services.

Launchmasters

There are eight launchmasters who are employees of the Authority, four in Saint John and four in Halifax.

The Launchmasters are members of the Canadian Merchant Service Guild-Launchmasters. A four-year collective agreement was negotiated in 2012 to remain in effect until the end of 2015.

Deckhand

There are eight deckhands who are employees of the Authority, four in Saint John and four in Halifax.

The Deckhands are members of the Public Service Alliance of Canada-Deckhands and Office Staff. A new four-year collective agreement was negotiated in 2015. The old contract had expired on December 31, 2014, but the union was not able to commence bargaining until mid-2015. The agreement expires on December 31, 2018.

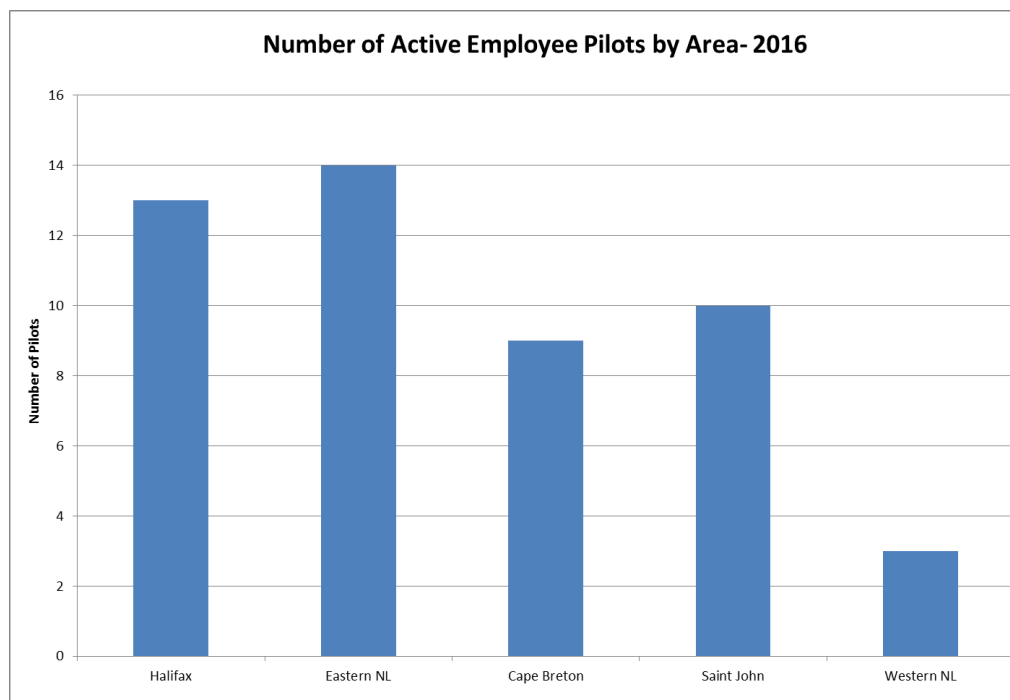
DISPATCHERS

Included in the dispatchers' category is the Pilot Operations Manager, who supervises the dispatch centre, and five dispatchers. The five dispatchers are employees of the Authority who work out of the Dispatch Centre located in the Authority's head office. They are members of the Public Service Alliance of Canada-Deckhands and Office Staff. As noted above, a new four-year collective agreement was negotiated in 2015. The agreement expires on December 31, 2018.

ENTREPRENEURIAL PILOTS

Entrepreneurial (or Contract) Pilots are not employees of the APA, and derive their income from receiving a share of the tariff levied for an assignment. A Contract Pilot is paid a percentage of the tariff rate for each pilotage assignment. Some employee pilots perform Contract Pilotage in non-compulsory assignments during their off duty time. Because these pilots are included above as employee pilots, they are excluded from Entrepreneurial pilot totals.

The following graph illustrates planned employee pilot allocation by the end of 2016.



PENSION PLAN

Section 16 of the *Pilotage Act* specifies that the Authority is deemed to be a Public Service corporation for the purposes of section 37 of the *Public Service Superannuation Act*. Employees of the Authority are members of the Public Service Superannuation Plan and contributions are made by the employees and the Authority to fund their future annuity. This plan aligns with the Government priorities and is moving to an employee/employer cost sharing ratio of 50:50.

The average retirement age of the employees of the Authority is approximately 62 years of age.

7. COMPLIANCE WITH GOVERNMENT INITIATIVES

7.1 IMPLEMENTATION OF THE 2013 OPERATING BUDGET FREEZE

The Authority is a “non-appropriated” or self- financing Crown Corporation. Nevertheless, in budgeting for 2016, the Authority has respected the spirit and intent of the freeze of operating budgets announced in the 2013 Speech from the Throne and Fall Update regarding limiting operating expenditures and discretionary spending.

The administration spending budgets for the APA are deemed to be the Dispatch budget, the Administration budget, and a portion of the Training budget related to administrative staff. The items in these budgets were separated into discretionary and non-discretionary items. The discretionary expenses, which make up the majority of the total items, are budgeted to decrease by 1.1% from the 2014 levels.

For the Administration budgets in total, including both discretionary and non-discretionary spending, budgeted expenses have decreased by 4.6% for 2016 from 2014 budget levels. These expenses have fallen due to targeted planned savings in several areas.

Administration Budget - 2016				
		2014	2016	2016
		Budget	Budget	Change
				over
				2014 Budget
Discretionary Items				
	Salaries & Benefits	1,586	1,639	53
	Travel	181	153	(28)
	Communication	42	47	5
	Utilities, Materials, Supplies	279	274	(5)
	Rentals	23	26	3
	Professional & Special Services	119	71	(48)
	Training	12	7	(5)
	Amortization	88	87	(1)
	<i>Total Admin Discretionary Expenses</i>	2,330	2,304	(26)
	<i>Discretionary Budget Increase</i>			-1.1%
Non Discretionary Items				
	Board Fees & Allowances	156	151	(5)
	Bad Debt Expense	10	20	10
	Headquarters Office Space	146	157	11
	Property and Business Taxes	4	4	-
	Legal Fees	78	48	(30)
	Internal Audit Fees	40	15	(25)
	Transport Canada Fees	108	30	(78)
	Canada Gazette Costs	9	9	-
	Payroll Processing	8	15	7
	Translation Services	10	8	(2)
	Pilot Warrant Charges	5	5	-
	Pilot Review Costs	-	4	4
	<i>Total Admin Non Discretionary Expenses</i>	574	466	(108)
	<i>Non-discretionary Budget Increase</i>			-18.8%
	<i>Total Admin Expenses</i>	2,904	2,770	(134)
				-4.6%

The individual operating budgets for each port were deemed to be operating expenses. Amortization has been excluded as capital investment was not frozen and the Authority continues to invest in pilot vessels and modern equipment. Increases in operating expenses from the 2014 budget levels have been offset with equal or greater increases in budgeted revenues. The net operating Income is budgeted to increase in 2016 from 2014, as is the final net profit. The Authority is targeting a net income for 2016 that satisfies its needs regarding being financially self-sufficient.

		2014 Budget	2016 Budget	Budget Difference 2016 over 2014 Budget
Revenues				
Operating Budgets				
	Pilotage charges	21,825	23,981	2,156
	Surcharge	-	269	269
	Total Revenues	21,825	24,250	2,425
Expenses				
	Pilots' fees, salaries and benefits	9,791	11,256	1,465
	Pilot boats, operating costs	4,719	5,016	297
	Pilot boat crews' salaries and benefits	1,710	1,826	116
	Transportation and travel	569	603	34
	Training	264	308	44
	Professional and special services	115	139	24
	Utilities, materials and supplies	59	58	(1)
	Rentals	109	108	(1)
	Communications	81	84	3
	Financing Costs	153	123	(30)
	Total Expenses	17,569	19,521	1,952
		-	-	-
Net Operating Income		4,256	4,729	473
		-	-	-
		-	-	-
Less:	Amortization	1,222	1,229	7
		-	-	-
	Discretionary Admin Costs	2,330	2,304	(26)
	Non-Discretionary Admin Costs	574	466	(108)
	Miscellaneous Income	(58)	(34)	24
	Total Admin Costs	2,846	2,736	(110)
		-	-	-
Profit		188	764	575

Pilotage charges are \$2.2 million higher than the 2014 budget due to assignment growth in smaller income ports from the previous budgeted levels (\$384,000) and tariff increases (\$1.8 million). The surcharge is expected to add an additional \$269,000 in 2016.

Operating Expenses are budgeted to increase \$2.0 million as the Authority has increased pilot strength to resolve service concerns and prepare for imminent retirements. Pilot overtime costs have increased with additional activity. Pilot boat operating costs have increased with contracted crewing and rental costs due to activity as well as an increase in pilot boat repair costs.

8. FINANCIAL STATEMENTS

(ACTUAL 2014 DATA, 2015 OUTLOOK AND 2016-2020 FINANCIAL PLAN)

The Authority implements its strategies to accomplish its objectives. The financial implications are summarized below in Sections 8.1 through 8.6. The column headings in these tables represent the following:

- Actual 2014 - the audited financial results for the year
- Outlook 2015 - based on seven months of actual results and a forecast for the remainder of the year.
- Budget 2016 – based on operating budgets and forecasted activity summarized in Section 8 of this report.
- Plan 2017 – 2020 – based on forecasted activity and costs with extrapolations where specific information is not known.

8.1 STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31

(000's)

	ACTUAL 2014	OUTLOOK 2015	BUDGET 2016	2017	PLAN		
					2018	2019	2020
INCOME							
PILOTAGE CHARGES	\$ 22,483	\$ 22,792	\$ 23,981	\$ 24,719	\$ 25,459	\$ 25,968	\$ 26,488
INTEREST & OTHERS	79	33	33	34	34	35	36
TOTAL INCOME	22,562	22,825	24,014	24,753	25,493	26,003	26,524
EXPENSES							
PILOTS FEES, SALARIES, AND BENEFITS	10,552	10,982	11,256	11,540	11,935	12,234	12,540
PILOT BOATS	5,137	4,952	5,016	5,190	5,312	5,418	5,527
STAFF SALARIES AND BENEFITS	1,612	1,717	1,639	1,608	1,651	1,692	1,735
PILOT BOAT CREWS' SALARIES AND BENEFITS	1,698	1,781	1,826	1,872	1,911	1,949	1,988
OPERATIONS TRANSPORTATION	672	651	603	623	610	625	641
ADMINISTRATIVE TRAVEL	177	166	153	160	164	168	172
HOSPITALITY	8	13	13	13	13	13	13
PROFESSIONAL AND SPECIAL SERVICES	584	493	405	369	378	385	393
TRAINING	320	315	315	330	330	337	343
RENTALS	285	293	295	298	303	309	315
COMMUNICATION	140	135	130	136	140	143	146
UTILITIES, MATERIALS, AND SUPPLIES	432	433	429	441	435	444	453
AMORTIZATION	1,417	1,293	1,316	1,289	1,133	1,320	1,188
FINANCING COSTS	145	136	123	152	134	119	102
TOTAL EXPENSES	23,179	23,360	23,519	24,021	24,449	25,156	25,556
NET INCOME BEFORE SURCHARGE	\$ (617)	\$ (535)	\$ 495	\$ 732	\$ 1,044	\$ 847	\$ 968
SURCHARGE REVENUE	-	-	269	324	334	45	-
PROFIT (LOSS) FOR THE YEAR	\$ (617)	\$ (535)	\$ 764	\$ 1,056	\$ 1,378	\$ 892	\$ 968
RATE OF RETURN	-2.7%	-2.3%	3.2%	4.3%	5.4%	3.4%	3.6%

8.2 STATEMENT OF FINANCIAL POSITION
YEARS ENDED DECEMBER 31
(000's)

	ACTUAL 2014	OUTLOOK 2015	BUDGET 2016	2017	PLAN		2020
					2018	2019	
ASSETS							
CURRENT							
CASH	\$ 1,149	\$ 349	\$ 815	\$ 1,264	\$ 2,402	\$ 3,289	\$ 4,087
ACCOUNTS RECEIVABLE	3,280	2,947	3,094	3,156	3,219	3,284	3,349
PREPAID EXPENSES	<u>132</u>	<u>98</u>	<u>95</u>	<u>97</u>	<u>99</u>	<u>101</u>	<u>101</u>
	4,561	3,394	4,004	4,517	5,720	6,674	7,537
FIXED							
CAPITAL AT COST	18,500	18,838	21,429	24,344	25,124	25,799	26,474
LESS ACCUMULATED AMORTIZATION	<u>7,858</u>	<u>8,840</u>	<u>10,156</u>	<u>11,445</u>	<u>12,578</u>	<u>13,898</u>	<u>15,086</u>
	10,642	9,998	11,273	12,899	12,546	11,901	11,388
	\$ 15,203	\$ 13,392	\$ 15,277	\$ 17,416	\$ 18,266	\$ 18,575	\$ 18,925
LIABILITIES							
CURRENT							
ACCOUNTS PAYABLE	\$ 1,889	\$ 1,059	\$ 1,100	\$ 1,150	\$ 1,175	\$ 1,200	\$ 1,225
CURRENT PORTION OF BANK LOANS	422	435	534	613	643	668	693
TERMINATION BENEFITS	<u>112</u>	<u>115</u>	<u>58</u>	<u>65</u>	<u>90</u>	<u>90</u>	<u>90</u>
	2,423	1,609	1,692	1,828	1,908	1,958	2,008
LONG TERM							
BANK LOANS	4,212	3,777	4,743	5,630	4,987	4,319	3,626
TERMINATION BENEFITS	<u>1,426</u>	<u>1,399</u>	<u>1,471</u>	<u>1,531</u>	<u>1,566</u>	<u>1,601</u>	<u>1,626</u>
	5,638	5,176	6,214	7,161	6,553	5,920	5,252
TOTAL LIABILITIES	8,061	6,785	7,906	8,989	8,461	7,878	7,260
CONTRIBUTED CAPITAL AND EQUITY							
EQUITY	<u>7,142</u>	<u>6,607</u>	<u>7,371</u>	<u>8,427</u>	<u>9,805</u>	<u>10,697</u>	<u>11,665</u>
	7,142	6,607	7,371	8,427	9,805	10,697	11,665
	\$ 15,203	\$ 13,392	\$ 15,277	\$ 17,416	\$ 18,266	\$ 18,575	\$ 18,925

8.3 STATEMENT OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31
(000's)

	ACTUAL 2014	OUTLOOK 2015	BUDGET 2016	2017	PLAN		2020
					2018	2019	
RETAINED EARNINGS, BEGINNING OF YEAR	\$ 7,848	\$ 7,142	\$ 6,607	\$ 7,371	\$ 8,427	\$ 9,805	\$ 10,697
GAIN (LOSS) FOR THE YEAR	(618)	(535)	764	1,056	1,378	892	968
OTHER COMPREHENSIVE GAIN (LOSS)	<u>(88)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS)	(706)	(535)	764	1,056	1,378	892	968
RETAINED EARNINGS, END OF THE YEAR	\$ 7,142	\$ 6,607	\$ 7,371	\$ 8,427	\$ 9,805	\$ 10,697	\$ 11,665

8.4 STATEMENT OF CHANGES IN FINANCIAL POSITION
YEARS ENDED DECEMBER 31
(000's)

	ACTUAL 2014	OUTLOOK 2015	BUDGET 2016	2017	PLAN		2020
					2018	2019	
<u>OPERATING ACTIVITIES</u>							
CASH PROVIDED BY (USED FOR)							
OPERATIONS							
NET PROFIT (LOSS) FOR YEAR	\$ (618)	\$ (535)	\$ 764	\$ 1,056	\$ 1,378	\$ 892	\$ 968
ITEMS NOT REQUIRING CASH							
AMORTIZATION	1,417	1,293	1,316	1,289	1,133	1,320	1,188
ASSET WRITE OFF	53	48	140	85	85	90	90
INCREASE (DECREASE) IN EMPLOYEE TERMINATION BENEFITS- SEVERANCE	229	137	130	125	125	125	115
	<u>1,081</u>	<u>943</u>	<u>2,350</u>	<u>2,555</u>	<u>2,721</u>	<u>2,427</u>	<u>2,361</u>
CASH PROVIDED BY (USED FOR)							
NON-CASH WORKING CAPITAL	(630)	(462)	(103)	(14)	(40)	(41)	(41)
EMPLOYEE TERMINATION BENEFIT PAYMENTS	<u>(62)</u>	<u>(161)</u>	<u>(115)</u>	<u>(58)</u>	<u>(65)</u>	<u>(90)</u>	<u>(90)</u>
CASH PROVIDED BY OPERATING ACTIVITIES	\$ 389	\$ 320	\$ 2,132	\$ 2,483	\$ 2,616	\$ 2,296	\$ 2,230
<u>FINANCING ACTIVITIES</u>							
CASH PROVIDED BY FINANCING							
LOAN RECEIVED ACTIVITIES	-	-	1,500	1,500	-	-	-
LOAN PAYMENTS	<u>(399)</u>	<u>(423)</u>	<u>(435)</u>	<u>(534)</u>	<u>(613)</u>	<u>(643)</u>	<u>(668)</u>
	<u>(399)</u>	<u>(423)</u>	<u>1,065</u>	<u>966</u>	<u>(613)</u>	<u>(643)</u>	<u>(668)</u>
<u>INVESTING ACTIVITIES</u>							
(INCREASE) DECREASE IN INVESTMENTS	-	-	-	-	-	-	-
ADDITIONS TO CAPITAL ASSETS	(725)	(697)	(2,731)	(3,000)	(865)	(765)	(765)
DISPOSAL OF CAPITAL ASSETS	-	-	-	-	-	-	-
CASH USED FOR INVESTING ACTIVITIES	(725)	(697)	(2,731)	(3,000)	(865)	(765)	(765)
INCREASE IN CASH AND SHORT TERM INVESTMENT DURING THE YEAR	\$ (735)	\$ (800)	\$ 466	\$ 449	\$ 1,138	\$ 888	\$ 797
CASH, BEGINNING OF YEAR	<u>1,884</u>	<u>1,149</u>	<u>349</u>	<u>815</u>	<u>1,264</u>	<u>2,402</u>	<u>3,289</u>
CASH, END OF YEAR	\$ 1,149	\$ 349	\$ 815	\$ 1,264	\$ 2,402	\$ 3,289	\$ 4,087

The cash balance at the end of 2015 is projected to be very low. This is due primarily to recent poor financial years and a switch away from the Government pay system. When the Government moved to Phoenix for pay services, the Authority, as a Government Business Entity, was priced separately for this service and the costs were prohibitive. The APA moved to a private pay service midway through 2015. When with the Government payroll, the APA was not invoiced for payroll immediately and there could be as much as \$1 million in payroll owed. With the private provider the payments are made immediately and this \$1 million float has disappeared.

The cash balances shown above looks to restore these balances to historical norms by 2019-2020 from the current low in 2015. These cash balances would allow the APA to operate effectively even in periods of unexpected downturns and would also fund future capital replacement.

8.5 CAPITAL BUDGET
YEARS ENDED DECEMBER 31
(000's)

	ACTUAL	OUTLOOK	BUDGET	PLAN			
	2014	2015	2016	2017	2018	2019	2020
PILOT BOATS							
CONSTRUCTION OR PURCHASE OF BOAT	-	-	1,500	1,500	-	-	-
PILOT BOAT REFIT AND EQUIPMENT	558	624	745	1,330	650	700	700
WHARVES AND STRUCTURES	9	18	385	75	125	30	30
MAINTENANCE AND OTHER VEHICLES	-	-	-	-	35	-	-
LEASEHOLD IMPROVEMENTS	-	-	-	45	-	-	-
COMPUTER AND OFFICE EQUIPMENT	31	41	77	40	45	20	20
COMPUTER SOFTWARE	39	14	24	10	10	15	15
TOTAL	\$ 637	\$ 697	\$ 2,731	\$ 3,000	\$ 865	\$ 765	\$ 765

The Authority had the second of two new pilot boats enter service in the Port of Saint John in April 2013. The first boat of this class was launched for Halifax in 2012. This plan includes a preliminary timeline for adding two more vessels, one each for Halifax and Saint John. The Authority examined several vessel design options to determine if there were superior vessels that would provide a stable and robust platform for the pilots while reducing maintenance costs and down time. The current focus is to search for used vessels that are under ten years old that could serve as backup vessels in these two ports at a lesser cost than new builds. These boats would replace backup vessels that will be 40 to 42 years old by 2017. Customers in both ports have expressed the desire to have reliable pilot boat service, and there is a legitimate need to replace these older vessels.

Pilot boat refits and equipment are expected to increase with the two new vessels in the fleet. Equipment on the Placentia Bay boats will be reaching the end of its useful life and needing service or replacement within the planning period. Transport Canada and Lloyd's Register inspections will also be due on all APA boats over this period with several of them taking place in 2017.

The Authority is currently leasing a pilot office and dock in Halifax. This location is deteriorating as the office is located on a wharf that is not being maintained. Other options are being investigated with the intention to move to a new space and change the location where the pilot boats are docked. The Authority also has docking costs, a pilot office, and crew quarters in Arnold's Bay, NL to service the port of Placentia Bay. Alternative are being sought in Placentia Bay that would provide more security at a reduced cost. An amount has been included under wharves and structures for these alternatives.

New tablet computers continue to be evaluated by the Authority pilots for their feasibility as a Portable Pilot Units (PPU). Because of the nature of the pilotage performed by APA pilots, primarily harbour pilotage, the type of laptop PPU used by the other Pilotage Authorities is not practical for the APA application. The other capital items are expected to remain fairly consistent with previous years.

8.6 KEY FINANCIAL RATIOS

YEARS ENDED DECEMBER 31

	ACTUAL 2014	OUTLOOK 2015	BUDGET 2016	2017	PLAN 2018	2019	2020
PROFIT MARGIN	-2.7%	-2.3%	3.2%	4.3%	5.4%	3.4%	3.6%
DAYS COVERAGE	69	52	61	67	83	94	104
CURRENT RATIO	1.88	2.11	2.37	2.47	3.00	3.41	3.75
RETURN ON TOTAL ASSETS	-3.9%	-3.7%	5.3%	6.5%	7.7%	4.8%	5.2%
DEBT TO EQUITY	1.13	1.03	1.07	1.07	0.86	0.74	0.62

Profit Margin- As discussed previously, the 2014 and 2015 fiscal years have been below budget financially for the Authority for various reasons. The Authority is projecting another loss for 2015, but was only targeting a thin margin. In 2016, the profit margin is expected to increase with the addition of the surcharge. Traffic is not expected to grow significantly from 2015.

Days Coverage- In 2011, the Board adopted a resolution with respect to the amount of funds available in liquid assets. The resolution called for the calculation of days coverage of budgeted expenditures per day. It was agreed that if the days coverage reached 122 days, the excess funds would be set aside for future capital expenditures or debt reduction. Once these projects were funded, the targeted return on revenue would be adjusted accordingly. During the current period of capital replacement, a decision was made to limit the borrowing for the new vessels as much as possible in order to use cash on hand rather than long-term debt. The Authority had \$4 million borrowing approval, but chose to only borrow \$2 million. In the 2016 to 2018 period, the Authority is proposing two more used vessels be added and is planning to finance them with long-term debt.

Current Ratio- The current ratio is expected to remain strong through the planning period with current assets being close to double current liabilities and growing over time.

Return on Assets- The return on assets is expected to improve. The goal is to earn a higher return on assets than what could otherwise be earned if the money were invested elsewhere.

Debt to Equity Ratio- The debt to equity ratio is expected to decline over the planning period. The new borrowing will not have a significant effect on the debt to equity ratio as the equity is also expected to grow.

8.7 SENSITIVITY OF FORECAST TO CHANGES

Small variances in the number of pilotage assignments forecast do not generally affect the overall performance of the Authority. Changes in operating expenses begin to develop when the activity reaches a level, for example, where an additional pilot should be hired or laid off. This level would depend on the area being considered.

Contracts for pilot boats are generally related to the volume of assignments. Most contracts are for one year with automatic renewal clauses if no notice to terminate or amend the contract is given by either party within a specified period. For vessels owned by the Authority, there is exposure to significant fluctuations in costs, especially the price of fuel and costs related to repairs and maintenance.

Administrative expenses are generally fixed for a year, at least, and are not related to volume of activity during the year.

For illustrative purposes, the port of Halifax has had two weekly container lines add a weekly call recently. The effect on the 2016 budgeted profit (including the surcharge) for the Authority if there was an additional weekly caller, or a weekly caller decided to leave, is presented below. This assumes that the vessels are a similarly size to the large ones added recently.

- 1) Forecast volume-expected net profit of \$764,000.
- 2) Volume decline of 104 assignments-expected net profit of \$361,000.
- 3) Volume growth of 104 assignments-expected net profit of \$1,144,000.

8.8 COMPONENTS OF THE TARIFF FORMULA

The tariffs in each of the 17 compulsory pilotage areas is based on the expected number and size of ships for the area, matched against the cost of operating the area. It follows, therefore, that the cost structure varies between pilotage areas because the size and number of ships varies between pilotage areas.

The pilotage tariff charged to a ship depends upon the size of the vessel. Vessel size is measured in pilotage units which are calculated by a formula that uses vessel length, breadth and moulded depth. A significant decrease in assignments may not necessarily result in a significant decrease in pilotage units if the average vessel size increases. Similarly, a significant increase in assignments may not necessarily result in a significant increase in pilotage units if the average vessel size decreases. This has been the case in recent years.

The following example will illustrate a typical tariff charge in the compulsory pilotage area of Halifax. The container ship *Atlantic Compass* is a regular caller at Halifax. The vessel is 57,255 gross tonnes, and has a unit measurement of 676.16 pilotage units. The cost to this vessel for a pilotage trip inwards to Halifax in 2015 is \$2,554.02 calculated as follows:

2015 Tariff		
Variable Charge- Greater of Unit charge or Gross Tonnage charge		
Unit Charge, 2.60 x 676.16	\$ 1,758.02	1,758.02
Gross Tonnage Charge 57,255 x .0175	1,001.96	
Basic Charge		666.00
Fuel Charge		130.00
Total Charge		<u>2,554.02</u>

The variable charge is intended to cover the cost to the Authority of the pilot and a portion of indirect overhead expenses, or administration. These costs vary between 60% and 65% of the cost of providing the service. The variable charge is calculated as the greater of the unit charge or the gross tonnage charge. In the above example, the unit charge is greater, so that charge prevails.

The basic charge is intended to cover the cost to the Authority of the pilot boat and a proportionate amount of direct overhead expenses, such as pilot travel, training, communication, and dispatching. These costs vary between 35% and 40% of the cost of providing the service.

The fuel charge is based on the budgeted fuel consumption (as included in the *Atlantic Pilotage Authority Tariff Regulations, 1996, Schedule 2, Column 6*) and the market price of fuel. The price of fuel is reviewed monthly and adjusted as required. For the purpose of this illustration, a fuel cost of \$1.00 per litre has been assumed.

There are employee pilots in most compulsory pilotage areas. However, in the compulsory pilotage areas of Miramichi, Pugwash, Confederation Bridge, Charlottetown, and Voisey's Bay there are corporate or entrepreneur pilots who receive 85% of the tariff. The remaining 15% contributes to the Authority's dispatch, training, and administration costs.

9. CAPITAL BUDGET

9.1 CAPITAL EXPENDITURE COMPARISON **(000's)**

	2014 BUDGET	2014 ACTUAL	2014 VARIANCE	2015 BUDGET	2015 OUTLOOK	2015 VARIANCE	2016 BUDGET	2016 CHANGE
PILOT BOATS								
CONSTRUCTION OR PURCHASE OF NEW BOAT	-	-	-	1,500	-	(1,500)	1,500	1,500
PILOT BOAT REFIT AND EQUIPMENT	645	558	(87)	725	624	(101)	745	121
WHARVES AND STRUCTURES	125	9	(116)	240	18	(222)	385	367
MAINTENANCE AND OTHER VEHICLES	-	-	-	-	-	-	-	-
LEASEHOLD IMPROVEMENTS	-	-	-	5	-	(5)	-	-
COMPUTER AND OFFICE EQUIPMENT	20	31	11	22	41	19	77	36
SOFTWARE FOR COMPUTER PROGRAMS	37	39	2	35	14	(21)	24	10
TOTAL	\$827	\$637	(\$190)	\$2,527	\$697	(\$1,830)	\$2,731	2,034

Capital Expenditure Comparison Explanation

Explanation of Variance between 2014 Budget and Actual

The Authority is still determining what the options are for changing the location of the pilot boats and pilot office in Halifax. Wharves and structures are under budget as this move has not been made to date.

New tablet computers continue to be evaluated by the Authority pilots for their feasibility as a Portable Pilot Units (PPU). The Authority also began to test an Ownship computer technology to facilitate leading in and leading out of vessels when the pilot is unable to board.

Explanation of Variance between 2015 Budget and Outlook

The Authority began a new project to source two additional vessels as it continues to replace the older Breau boats. In 2015 members of the Authority continued the search for alternatives and no capital amounts were accumulated. This project has now slipped into 2016 and 2017, but will be a multi-year endeavour that will cross financial periods.

There were extensive upgrades budgeted to be made on the Placentia Bay vessels as the transmissions are failing. Only one of the vessels was completed during 2015 with the other scheduled for early 2016. The other vessels were dry docked in 2015 with various amounts of work done on each vessel. Under IFRS, much of this work was capitalized.

A solution to the pilot office and pilot boat docks for Halifax is still being sought. It was anticipated that a move may occur in 2015 with the capital costs incurred under Wharves and Structures. The location targeted by the Authority has not been made available to date and other alternatives are being discussed.

Explanation of Variance between 2016 Budget and 2015 Outlook

The Authority continues the project to source two additional vessels as it continues to replace the older Breau boats. The current focus, as mentioned earlier, is to find two used vessels of under 10 years of age to act as backup vessels.

The second Placentia Bay vessel is budgeted to have its transmissions and HVAC system replaced early in 2016. The other vessels continue to be dry docked in 2016 with various amounts of work done on each vessel with much of this work being capitalized.

In addition to the pilot office and pilot boat docks for Halifax, the Authority is also seeking improved facilities for Placentia Bay. Repair work and investment is also required at the Herring Cove breakwater outside Halifax. The Authority is expanding the use of tablets for its pilots by adding ten additional units in 2016. A server is also required for the office in the coming year.

10. 2016 OPERATING BUDGET

10.1 SIGNIFICANT ITEMS AFFECTING THE 2016 BUDGET

10.1.1 PLANNING ASSUMPTIONS

The 2016 Forecast of Pilotage Requirements in Compulsory Pilotage Areas is the basis for the planning assumptions of the Authority. A summary of the forecast follows as Appendix “A”.

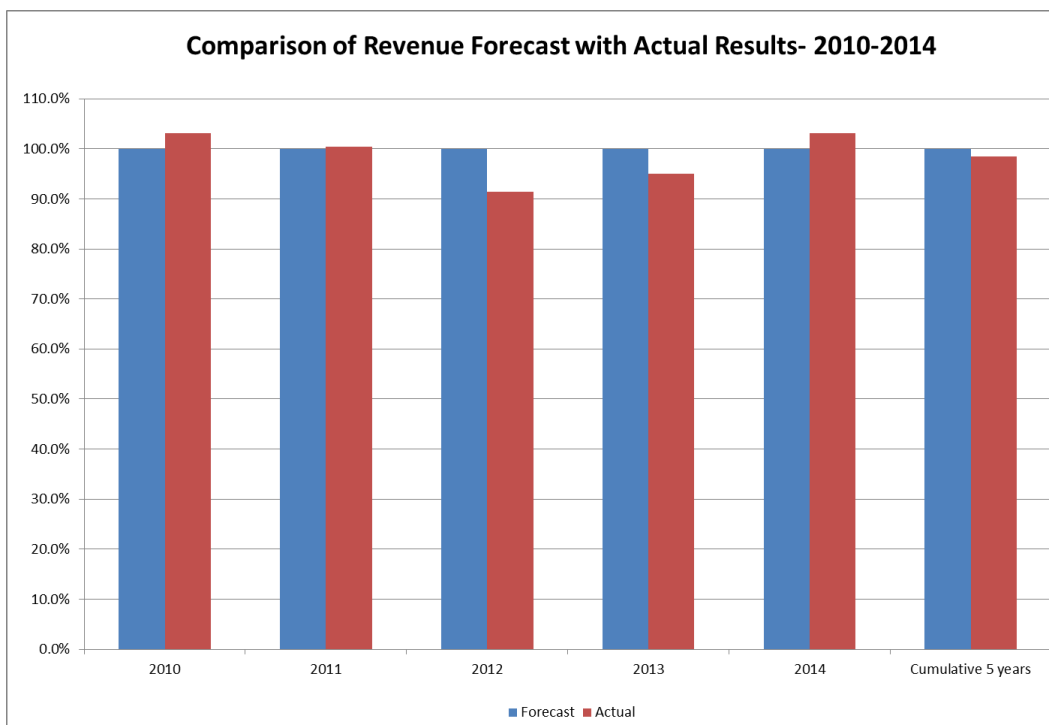
During the planning period, it is expected that the overall number of assignments in 2016 will be similar to 2015. This is based on shipping announcements and information provided to the Authority.

The Authority reviews each port to arrive at a projected traffic level for the port, and rolls these numbers into the overall forecast as presented in Appendix “A”.

10.1.2 REVENUE AND TARIFFS

The assumptions for Revenue figures in the planning period are based on future proposed tariff increases and forecasted levels of activity.

Based on the level of activity forecast, the Authority determines its expenditure and revenue expectations. Over the last five years, the cumulative revenue has been within 1.5% of the budgeted revenue. Please note the following chart:



10.1.3 OPERATING EXPENSE COMMITMENTS

I. Pilots

Eastern NL - there will be a total of fourteen pilots by the end of 2016. The timing of the hiring of the additional pilots will depend on the progress of the training. 12 of the pilots will be at Class A Unlimited by year end, while the two most recent hires will be Class A Limited and Class C. These pilots provide service in Placentia Bay, Holyrood, and St. John's compulsory pilotage areas.

Halifax - by the end of 2016 there will be thirteen pilots, with one expected to retire early in 2017. Eleven of these pilots will be Class A Unlimited with one pilot a Class A Limited and one pilot at a Class C level by year end.

Cape Breton - there will be a total of nine pilots by the end of 2016. By year end there will be eight Class A Unlimited pilots in the district and one Class B level. The Cape Breton District includes the Sydney, Strait of Canso, and Bras d'Or compulsory pilotage areas.

Saint John – expected retirements and future business growth for the port means there will be ten pilots on strength in 2016. Eight will be at a full Class A Unlimited, one pilot will be at a Class A limited licence, and one pilot will be at a Class B level by the end of the year.

Western NL - three Class A pilots will provide service in the district, covering the ports of Bay of Exploits (Lewisporte and Botwood), Humber Arm (Corner Brook), and Stephenville.

II. Pilot Boat Operations

The Authority currently has thirteen pilot boat contractors that provide service ranging from the provision of the complete boat and crewing in a port, to manning of Authority owned vessels, or to providing reserve boats to augment service in a port. The amount earned by the contractor in a year can vary greatly, depending on the volume of traffic and the type of boat required for a particular area. Most contractors are paid on a fee for service basis, with a guarantee of a minimum number of assignments paid.

The Authority has nine boats that it owns and operates. In operating its own fleet, the APA has encountered a significant increase in operating expenses in recent years due to increased fuel costs. Repair costs have also been increasing as the newer vessels have more sophisticated electronics and systems that can be more costly to maintain. With respect to the older vessels in the fleet, the primary issue is sourcing parts for spares or for rebuilds of equipment such as engines. This can mean increased downtime that can cause service issues. In the five year period beginning in 2011, for example, the Authority spent over \$3.55 million on pilot boat repairs. As the Authority replaces older vessels with newer vessels, amortization costs and financing costs also increase. There has been a significant increase in these operating costs with the two newest vessels entering service.

III. Dispatching Services

The Authority provides dispatching services throughout its region from the dispatch centre located at head office. There are a total of 5 dispatchers, under the supervision of the Pilot Operations Manager. The total cost of the dispatch operation in 2015 will be approximately \$590,000, including salaries, rentals, office supplies, communications, travel, and professional services. The dispatch software has been integrated into the billing system in the APA's financial software, and all invoicing to customers is done by dispatchers. The dispatch system also provides a myriad of statistical and financial reports for management, and allows the review of information on a real-time basis.

IV. Rentals

The annual rental for the Head Office in 2016 will be \$161,000, while facilities rented throughout the region for operational purposes will cost \$108,000. Rental of office equipment and other items will be approximately \$26,000. The Authority negotiated a favourable head office lease in 2007 that will run until 2017.

V. Professional and Special Services

This category includes legal fees, IT support, PRMM facilitation, internal audit, Board

Members Fees and Allowances, Transport Canada Cost Recovery fees, and other professional service fees.

VI. Cost Increases

The assumptions for cost increases vary according to expense item and level of activity. The inflationary factor used for operating expenditures varies depending upon contractual commitments in place, but generally ranges between two and three percent, depending upon category.

VII. Pilot Training

(i) New pilot hires

On entry to the pilotage system, pilots are granted an apprentice permit. This allows them to undertake pilotage training duties on all classes and sizes of vessels under the supervision of a licensed pilot. This is hands on training with experienced pilots acting as mentors, during which the new pilot becomes intimately familiar with the geographic area of operation, the idiosyncrasies of different berths and types of vessels, and the personnel involved in piloting, tug operations, Marine Communications and Traffic Services, etc. There are operating costs associated with this as the Apprentice Pilot receives 60% of the Class A salary for the particular district, and does not create revenue. After completion of the Apprentice period, the new entry pilot must pass an examination demonstrating knowledge of the pilotage district in order to advance to a Class C license, allowing the pilot to perform pilotage assignments on ships up to 10,000 gross tonnes. At this level, the pilot receives 75% of a Class A salary. Depending upon the area, this license will allow him to perform pilotage assignments on anywhere from 4% of traffic in an area like Placentia Bay to 85% of the available traffic in an area like St. John's. For the rest of the time, the Class C pilot will train on larger ships with senior pilots. After further experience, the pilot will progress to a Class B, and eventually to an unlimited Class A license. This training process takes a minimum of two years, with most pilots requiring about three years to reach the unlimited license.

During this initial period, the new pilot is sent on training provided by external institutions for a basic Manned Model course, a Pilot Bridge Resource Management session, AZIPOD propulsion systems training, and practical training with Escort Tugs and Z-Drive Tugs. Other courses may be utilized depending upon the qualifications the individual has upon becoming an APA pilot.

The total cost of the initial 2-3 year training program is approximately \$250,000 when salary is factored in.

(ii) Maintaining and upgrading skills and knowledge

Once a pilot has achieved an unlimited Class A license, the APA continues a

training program to maintain and refine skills and to understand evolving technology. Manned Model courses are invaluable in allowing a pilot to try new techniques in ship handling. The APA utilizes facilities in France and Great Britain that offer the most comprehensive and wide ranging courses. The APA also makes extensive use of simulator facilities in Canada and the United States to provide the opportunity for pilots to experience many different weather and sea-state scenarios. Pilots are sent on advanced ship handling simulator courses and advanced manned model courses after gaining one to two years of experience with their Class A Unlimited license.

Working pilots attend refresher courses on Automatic Radar Plotting Aids (ARPA), Bridge Resource Management (BRM) and the use of Global Positioning Systems and Differential Global Positioning Systems (GPS and DGPS). After approximately seven years of service, pilots attend refresher manned model courses, and may attend simulator courses. The Authority pays course fees, travel, accommodation, and meal expenses. Pilots may also have to attend courses such as Marine Emergency Duties (MED) and Electronic Chart Display and Information System (ECDIS) to revalidate their certificates of competency as required to meet International Maritime Organization (IMO) agreements in the Standards of Training, Certification and Watchkeeping – STCW/95. In addition, the Authority has worked with industry and the pilots to develop customized courses in such specialized areas as the use of tractor tugs for tanker escort and the characteristics of Azipod propulsion systems on cruise ships (as noted above in the discussion of training for new pilots).

The Authority sets a training budget each year after consultation with pilot representatives from each of the pilotage areas. The training requirements for individual pilots' are examined, taking into account operational requirements and course availability. The need for training can be triggered by experience levels achieved by pilots in training, by new technology for which pilots have to be prepared, by new marine certification requirements, or refresher courses on technology and procedures. Based on the 2016 requirements, the budget has been kept at \$315,000 for 2016. The Authority has a number of new pilots and pilots working their way through the classes. Future budgets will be set based on the training requirements and may vary significantly from year to year.

10.1.4 Summary of Revenue and Expense Commitments 2014-2020

A summary of the items listed in Section 8 is presented below by expense category. Capital reimbursement represents the principal payments required on the outstanding loans required for pilot vessel replacement.

	ACTUAL 2013	ACTUAL 2014	BUDGET 2015	OUTLOOK 2015	BUDGET 2016	2017	PLAN 2018	2019	2020
Income									
Pilotage Tariffs	21,180	22,483	23,399	22,792	23,981	24,719	25,459	25,968	26,488
Pilotage Surcharges	-	-	-	-	269	324	334	45	-
Other	395	79	37	33	33	34	34	35	36
Total Revenue	21,575	22,562	23,436	22,825	24,283	25,077	25,827	26,048	26,524
Direct Pilotage Costs									
Pilot Costs									
Contract Pilot Fees	818	887	694	890	873	904	930	953	977
Pilot Salaries and Benefits	9,024	9,668	9,897	10,091	10,384	10,637	11,006	11,281	11,563
Total Pilot Costs	9,842	10,555	10,591	10,981	11,257	11,541	11,936	12,234	12,540
Pilot Boat & Pilot Travel									
Pilot Boat Crew Costs	1,580	1,698	1,763	1,781	1,826	1,872	1,911	1,949	1,988
Pilot Boat Operating Costs	2,282	2,255	2,238	2,061	2,021	2,138	2,182	2,226	2,271
Pilot Boat Ownership Costs (Deprec.)	1,265	1,454	1,349	1,328	1,331	1,299	1,131	1,318	1,186
Pilot Boat Fees (Contract)	2,574	2,634	2,696	2,653	2,752	2,801	2,873	2,928	2,991
Pilot Travel Expenses	556	670	566	653	601	623	610	627	640
Other Related Costs	52	63	64	60	60	62	66	67	68
Total Pilot Boat & Pilot Travel	8,309	8,774	8,676	8,536	8,591	8,795	8,773	9,115	9,144
Other Pilot Expenses									
Pilotage Portable Units	1	3	5	8	18	23	28	35	40
Pilotage Training	111	320	315	315	315	330	330	337	343
Dispatch Center	532	606	600	590	643	606	618	630	643
Other Pilot Costs	360	450	446	413	452	475	484	494	504
Total Other Pilot Expenses	1,004	1,379	1,366	1,326	1,428	1,434	1,460	1,496	1,530
Total Direct Pilotage Costs	19,155	20,708	20,633	20,843	21,276	21,770	22,169	22,845	23,214
Indirect Pilotage Costs									
Administrative Expenses									
Administration Salaries	1,026	1,124	1,132	1,240	1,107	1,115	1,149	1,178	1,207
Professional Services	452	398	416	331	321	278	284	290	296
Regulatory Fees	106	108	110	110	30	30	31	32	32
Rent /Utilities /Supplies /Computers	439	445	435	465	445	454	453	466	477
Travel	110	177	161	166	153	160	164	168	172
Hospitality	11	8	10	13	13	13	13	13	13
Conferences	2	14	3	4	7	5	7	5	7
Other Amortization	49	52	56	52	43	44	45	40	36
Total Administrative Expenses	2,195	2,326	2,323	2,381	2,119	2,099	2,146	2,192	2,240
Financing Costs	124	145	136	136	123	152	134	119	102
Total Direct Pilotage Costs	2,319	2,471	2,459	2,517	2,243	2,251	2,280	2,311	2,342
Total Expenses	21,474	23,179	23,092	23,360	23,519	24,021	24,449	25,156	25,556
Net Profit (Loss)	101	(617)	344	(535)	764	1,056	1,378	892	968
Capital Reimbursement	300	400	422	423	435	534	613	643	668
Number of Contract Pilots	10	9	10	10	11	11	11	11	11
Number of Employee Pilots	42	47	49	47	49	48	48	48	48
Number of Assignments	8,338	8,472	8,316	8,460	8,464	8,472	8,472	8,557	8,642
Average Assignment per Pilot	160	151	141	148	141	144	144	145	146
Revenue over Assignments ratio ('000's)	2.59	2.66	2.82	2.70	2.87	2.96	3.05	3.04	3.07

10.2 Operating Budget and Expense Commitments Comparison

OPERATING BUDGET COMPARISONS (000's)

	2014 BUDGET	2014 ACTUAL	2014 VARIANCE	2015 BUDGET	2015 OUTLOOK	2015 VARIANCE	2016 BUDGET	2016 CHANGE
REVENUE								
PILOTAGE CHARGES	21,825	22,483	658	23,399	22,792	(607)	23,981	1,189
INTEREST&OTHER	57	79	22	37	33	(4)	33	-
	<u>\$21,882</u>	<u>\$22,562</u>	<u>\$680</u>	<u>\$23,436</u>	<u>\$22,825</u>	<u>(\$611)</u>	<u>\$24,014</u>	<u>\$1,189</u>
EXPENSES								
PILOT SALARIES, ETC	9,791	10,552	761	10,591	10,982	391	11,256	274
PILOT BOATS	4,719	5,137	418	5,183	4,952	(231)	5,016	64
STAFF SALARIES	1,586	1,612	26	1,616	1,717	101	1,639	(78)
PILOT BOAT CREWS' SALARIES, ETC	1,710	1,698	(12)	1,763	1,781	18	1,826	45
OPERATIONS TRANSPORTATION	569	672	103	567	651	84	603	(48)
ADMINISTRATIVE TRAVEL	181	177	(4)	161	166	5	153	(13)
HOSPITALITY	10	8	(2)	10	13	3	13	-
PROFESSIONAL & SPECIAL SERVICES	585	584	(1)	586	493	(93)	405	(88)
RENTALS	282	285	3	285	293	8	295	2
UTILITIES, MATERIALS, SUPPLIES	402	432	30	419	433	14	429	(4)
TRAINING	275	320	45	315	315	-	315	-
AMORTIZATION	1,310	1,417	107	1,330	1,293	(37)	1,316	23
COMMUNICATION	121	140	19	130	135	5	130	(5)
FINANCING COSTS	153	145	(8)	136	136	-	123	(13)
	<u>\$21,694</u>	<u>\$23,179</u>	<u>\$1,485</u>	<u>23,092</u>	<u>\$23,360</u>	<u>\$268</u>	<u>\$23,519</u>	<u>\$159</u>
NET PROFIT FROM OPERATIONS	<u>\$188</u>	<u>(\$617)</u>	<u>(\$805)</u>	<u>\$344</u>	<u>(\$535)</u>	<u>(\$879)</u>	<u>\$495</u>	<u>\$1,030</u>
SURCHARGE REVENUE	-	-	-	-	-	-	269	269
PROFIT (LOSS) FOR THE YEAR	<u>\$188</u>	<u>(\$617)</u>	<u>(\$805)</u>	<u>\$344</u>	<u>(\$535)</u>	<u>(\$879)</u>	<u>\$764</u>	<u>\$1,299</u>
TARGETED RATE OF RETURN	0.9%	-2.7%		1.5%	-2.3%		3.2%	
ASSIGNMENTS	8,093	8,472	379	8,316	8,460	144	8,464	4

Operating Budget Comparison

Explanation Variance between 2014 Budget and Actual

(a) Pilotage Charges- Variation of \$658,000

Three of the four major areas had revenues that were over budget. Placentia Bay revenue was 3.9% over budget as there was more activity at Whiffen Head than anticipated. Strait of Canso revenues were 2.4% over budget. The number of assignments in the area was more than budget with an increase in the number of bulk carriers in the strait. Halifax revenue was 1.4% over budget with the increase in research vessel assignments in the area.

(b) Expenses- Variation of \$1.485 million

The total expenses for the Authority were 6.8% over budget. The Authority added seven apprentice pilots in 2014 in an attempt to address service concerns and prepare for pending retirements. This number is more than budgeted as the primary concern is to maintain or improve the quality of service provided to the pilotage customers. The training of new pilots is an expensive endeavour which includes their salaries, training courses, and transportation costs. These related costs will decline over time as they move up in class of licence and the scheduled retirements take place.

The Authority had significant repair costs related to failing equipment on the vessels in Placentia Bay. This equipment is being replaced in 2015 and repair costs in the area should decline to normal levels. Increased activity over budget in several ports led to variable pilot boat costs, such as contractor boat service costs and fuel costs, to be higher than anticipated.

Other operating costs were over budget due primarily to the factors mentioned above. This category includes the recognition of an impairment for the equipment being replaced in Placentia Bay under amortization. It also includes training costs and advertising costs being over budget due to pilot recruitment.

Operating Budget Comparison

Explanation Variance between 2015 Budget and Outlook

(a) Pilotage Charges- Variation of (\$607,000)

The negative trend that has affected the Authority recently is that the average vessel size in a number of ports has decreased. Placentia Bay revenues are expected to be \$447,000 under budget while Canso revenues are expected to be under by \$289,000.

(b) Expenses- Variation of \$268,000

Pilot costs are projected to be over budget due primarily to recall costs incurred as pilots came back on overtime to cover increased assignments in Saint John and Halifax. Pilot shares are also over budget as there has been more income earned in ports manned by contract pilots.

The Authority has had savings for fuel due to lower diesel prices. Fuel is recovered through a gas surcharge and thus has not meant a net benefit to the Authority, but has benefited the users. Staff salaries are over budget with the organizational transition to a new CEO and new structure. This is temporary and will decline in the future. Transportation costs are over budget due to trips taken to evaluate new pilot boat designs and travel done by pilots who are still in training.

Operating Budget Comparison

Explanation Variance between 2016 Budget and 2015 Outlook

(a) Pilotage Charges - Variation of \$1.189 million

The level of activity (pilotage assignments) for 2016 is expected to be similar to 2015, but with some larger vessels added in Halifax. The changes in traffic are budgeted to add \$502,000 to total revenues while the change in permanent tariff proposed is projected to add \$687,000.

(b) Expenses- Variation of \$159,000

Pilot Salaries are expected to increase as the newer pilots move through their licences and move higher in the pay scale.

Pilot Boat costs are increasing with increased rental charges for manning and contract boat services while fuel prices are also budgeted to increase. The Authority is targeting \$295,000 in savings which are reflected primarily in staff salaries, transportation, and professional and special services.

(c) Surcharge- Variation of \$269,000

The Authority is implementing a 1.5% surcharge to be in effect for 36 months from the date of registration. This is estimated to raise \$269,000 in 2016.

11. BORROWING PLAN

The Authority is requesting the same overall borrowing as approved in the 2015-2019 Corporate Plan, but requires the Line of Credit be increased by \$1 million and Capital Borrowing be decreased by \$1 million.

11.1 Line of Credit

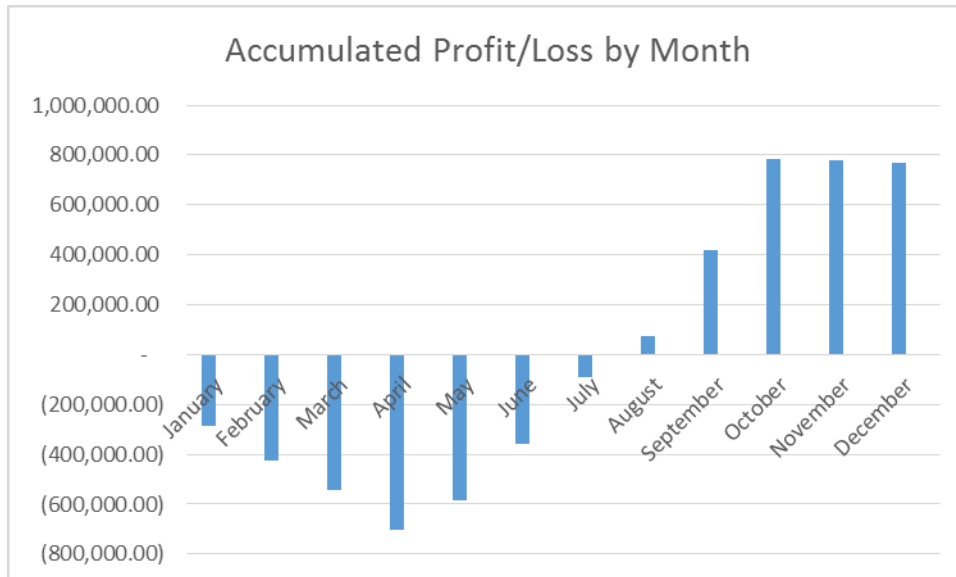
The Authority wishes to increase its line of credit from \$1.5 million to \$2.5 million and be placed with any financial institution in Canada that is a member of the Canadian Payments Association.

The Authority must operate with sufficient funds that will enable it to pay all debts according to normal business practices. The line of credit has not been increased since 2003 when the total expenses for the Authority were approximately \$15 million. With annual cash expenditures closer to \$23 million, the increase is being requested to provide similar coverage. This borrowing would be carved out of the capital borrowing amount approved in the 2015 – 2019 Corporate Plan.

The financial policy of the Authority is to use this line of credit for operating cash deficiencies. The line of credit is not intended to fund annual operating losses. As described on Page 48, the APA has lost a \$1 million float it had when payroll services were provided by the Government.

Also lost with this change is any flexibility regarding the timing of these payments. The Authority has drawn on its current line of credit several times during the summer of 2015. The line of credit had not been used in previous years due to the float mentioned above and the ability to time the payments for payroll to optimize cash flow.

The Authority projects to finish 2015 with a bank balance of \$345,000, but is entering its slowest period regarding traffic and corresponding revenues. Below shows the typical monthly pattern for accumulated profits for the Authority with the financial low point in the second quarter:



The Authority seeks approval of this policy as part of the Corporate Plan relating to borrowing.

Commercial Line Of Credit Proposed Terms and Conditions

Amount:	\$2.5 million - Fluctuating by Way of Overdraft
Rate of Interest:	The Lender's Prime Commercial Lending Rate or, lowest available lending rate as established from time to time, and is not to exceed Canadian prime rate.
Term:	Advances to be made as overdraft situations occur and balances will not exceed one year.
Lender:	Any Financial Institution in Canada that is a member of the Canadian Payments Association.

11.2 Capital Borrowing

Capital Loan (Adjusted Borrowing)

The Authority has moved its focus to used pilot vessels rather than new vessels. In the previous plan the Authority was granted \$4 million in new borrowing for the construction of two new vessels. This request would like to be amended to allow for \$1 million to be allocated to the increase in line of credit and \$3 million applied to the capital replacement program mentioned above. The structure of the loans will depend upon the timing of the purchases (i.e. whether the appropriate boats are found in 2016 or in 2017), and how much it will cost to bring them to Transport Canada standards, if required. The drawdown of the full loan may take place over multiple years.

Terms and Conditions

Amount:	\$3,000,000 - Advanced by Promissory Note as required for purchase and modifications of used pilot boats.
Rate of Interest:	The Lender's Prime Commercial Lending Rate, or the lowest available lending rate.
Term:	Maximum of 15 years
Repayment:	Monthly blended payment of principal and interest.
Lender:	Chartered Bank offering the lowest available lending rate.

Capital Loan (Existing Borrowing)

The Authority negotiated Capital Loans in the amount of \$4.5 million to finance two new pilot boats for Placentia Bay in 2007. The boats cost a total of \$6.7 million. The principal balance remaining on this loan as at December 31, 2015 will be \$2.4 million.

The Authority launched two new pilot vessels for the ports of Halifax and Saint John. The total cost of these vessels was \$5.8 million, and approval for financing up to \$4.0 million was provided by the Minister of Finance pursuant to the Authority's 2011-2015 Corporate Plan. Draws on this loan facility totaled \$2.0 million, and the remainder of the facility was not required for the build. The Authority was able to self-finance a larger portion of the construction costs than originally anticipated. The principal balance remaining on this loan as at December 31, 2015 will be \$1.8 million.

Millions of \$	2016	2017	2018	2019	2020
Operating line of credit	2.5	2.5	2.5	2.5	2.5
Capital Loans outstanding	3.8	6.2	5.6	5.0	4.3
Adjusted Capital loans	3.0	0.0	0.0	0.0	0.0
Total Outstanding Borrowings	9.3	8.7	8.1	7.5	6.8

12. COMPARISON WITH OTHER PILOTAGE AUTHORITIES

Comparisons with the three other pilotage authorities are hard to establish, as each authority has its own rate structure, pilot remuneration policies, and services. In addition, administrative expenses depend on the number of pilots on staff, the number of pilots on contract, the clientele, the volume of service, the region served, equipment managed, and other lesser factors.

Here is a brief description of the four authorities, describing the principal characteristics of each:

- The Laurentian Pilotage Authority provides mainly long-distance pilotage services. It is also responsible for local vessel movements in the various ports. The pilots are all members of a body corporate. There are three compulsory pilotage zones; the Port of Montreal, the St. Lawrence River between Montreal and Quebec, and the St. Lawrence River between Quebec and Les Escoumins, including the Saguenay River.
- The Great Lakes Pilotage Authority (GLPA) provides long-distance pilotage services and also must cope with locks and international waters (the United States). In addition, the Seaway is closed for about 3 months per year. All pilots are employees. The GLPA has six districts; Cornwall District, International District No. 1, Lake Ontario, International District No. 2 (including the Welland Canal), International District No. 3 (including Lakes Huron, Michigan, and Superior), and the Port of Churchill, Manitoba.
- The Atlantic Pilotage Authority provides pilotage service to many diverse ports throughout the Atlantic Provinces. Almost all of the pilotage performed by the APA is harbour pilotage. The APA serves 17 compulsory ports as illustrated on the map on page 20. It also provides service on request for many other areas that do not require compulsory pilotage. The APA's employee pilots perform over 90% of the assignments each year, with the remaining assignments performed by contract pilots. The Authority owns and operates nine pilot boats, as described in Appendix B, to provide pilot transport in several of the ports with most activity or longest pilotage distances. The APA also contracts for pilot boat service with 15 separate contractors. In some ports, separate contractors are used for summer and winter operation. The requirement for pilot boats in Atlantic Canada absorbs a greater proportion of the operating and capital budgets for the APA than for the other pilotage authorities.
- The Pacific Pilotage Authority (PPA) provides services with employee pilots on the Fraser River that is similar to those provided by the Atlantic Pilotage Authority. However, the great majority of their pilots are contract pilots who provide coastal pilotage service over long distances. These pilots must often use helicopters to board vessels. The PPA have four key traffic areas; Vancouver, Vancouver Island, Northern, and Fraser River.

2014 Actual Results				
	Great Lakes Pilotage	Laurentian Pilotage	Atlantic Pilotage	Pacific Pilotage
Annual Revenue (000's)	\$26,602	\$85,136	\$22,562	\$74,689
No. of Assignments	7,462	22,386	8,472	13,264
Employee Pilots	54	0	47	8
FTE Contract Pilots	2	181	9	92

APPENDICES

ATLANTIC PILOTAGE AUTHORITY
FORECAST OF PILOTAGE ASSIGNMENTS FOR 2016

<u>AREA</u>	<u>TRIPS</u>	<u>MOVES</u>	<u>CANCELLATIONS</u>	<u>TOTAL</u>
Halifax	2,527	278	29	2,834
Sydney	322	17	9	348
Bras d'Or	25	11	1	37
Canso	614	45	19	678
Pugwash	96	2	2	100
Saint John	1,724	59	96	1,879
Miramichi	10	-	-	10
Restigouche	6	-	-	6
St. John's	490	131	20	641
Holyrood	29	-	5	34
Placentia Bay	727	153	69	949
Humber Arm	191	-	4	195
Stephenville	19	-	-	19
Bay of Exploits	95	12	6	113
Voisey's Bay	12	-	-	12
Charlottetown	224	1	1	226
Confederation Bridge	94	-	-	94
Non-Compulsory	289	-	-	289
TOTAL	7,494	709	261	8,464

ATLANTIC PILOTAGE AUTHORITY PILOT BOATS

The APA maintains a fleet of pilot boats to transfer pilots in certain ports within the Atlantic region. The boats represent a substantial financial investment for the Authority.

Chebucto Pilot

This vessel was deployed in Halifax, NS in July of 2012 to operate as the primary pilot boat in the port. The boat was constructed at ABCO Industries Limited in Lunenburg, NS. The design work and project management was conducted by Lengkeek Vessel Engineering, based in Dartmouth, NS. The vessels were built to Lloyds Class, a very high standard of construction. To be built to this standard, Lloyds must approve all plans and drawings for the boat, must approve all equipment and machinery used in the boat, and a Lloyds representative must make periodic inspections of the shipyard to ensure that proper construction procedures are being followed. This is a 56 foot, twin screw, aluminum hull vessel with a service speed of 18 knots.



Captain A.G. Soppitt

This vessel is the sister ship to the Chebucto Pilot and was deployed in Saint John in April 2013. Like the Chebucto Pilot, the Captain A.G. Soppitt is a 17 meter (56 foot) twin screw aluminum hull vessel with a service speed of 18 knots. It was built at ABCO Industries Limited to Lloyd's Class and was also designed by Lengkeek Vessel Engineering.



Avalon Pilot Class

The Atlantic Pilot and the Avalon Pilot are 62 foot aluminum boats that were put in service in 2007 in Placentia Bay, NL. The boats were constructed at the A.F. Theriault shipyard in Meteghan River, NS. The vessels were also built to Lloyds Class and were designed by Lengkeek Vessel Engineering.

These vessels have a service speed of approximately 20 knots and a maximum speed of approximately 24 knots. The following is a picture of the Avalon Pilot just prior to delivery to NL.



Breaux Boats (APA #1, #18, and #20)

The workhorses of the APA fleet over the years have been the Breaux boats. The APA owns three of these 65 foot aluminum boats that have provided service in Placentia Bay, Halifax, NS, and Saint John, NB, for over 35 years. The vessels are sister ships, although some modifications have been made in wheelhouse design, equipment, and running gear. They were built in a now-defunct shipyard in Port Hawkesbury, NS. The picture below of APA #1 illustrates this design.



Two of the Breaux boats were completed in 1974, while the third entered service in 1976. The design was initially created as a Gulf of Mexico workboat. These boats are rugged and dependable, but each is reaching the end of its useful life. They may be able to operate for several more years as secondary vessels in a port. As of September 2014, each of these vessels is operating as a back-up vessel as they provide coverage in Halifax, Saint John, Sydney, and Placentia Bay. The Breaux boats were originally designed to work at 20 knots, but have slowed with age and increased weight to now work at approximately 13 knots.

Fundy Pilot

The Fundy Pilot is a 51 foot Raymond Hunt designed aluminum pilot boat built at Gladding-Hearn Shipbuilding in Massachusetts, USA. The boat was built in 1983 and the original owners were the Virginia Pilots. In the early 1990's the vessel was sold to the Boston Pilots, and in 2005 the APA purchased the boat. It underwent an extensive refit, was brought into compliance with Canadian standards, and entered service in Saint John in 2005. The Fundy Pilot works at approximately 16 knots. A picture of the Fundy Pilot appears below:



While the Fundy Pilot remains a capable boat, there will be an increased demand for pilot boat service over the next few years with an increasing number of ships being boarded at a new pilot boarding station farther out in the Bay of Fundy. The Fundy Pilot continues to provide reliable service as a secondary boat for the port of Saint John.

APA #2

The APA #2 is the only steel hulled boat owned by the APA, and also the only single screw (propeller) boat in the fleet. She is a 47 foot boat built in Port Hawkesbury, NS, in 1986, and has performed in St. John's (her original port), Placentia Bay, Confederation Bridge, PEI, Halifax, and Saint John. The APA #2 is currently the pilot boat in the port of Sydney, NS. The vessel is a good sea boat, but is only capable of operating at 10 knots, which limits its usefulness. It is, however, suitable for the Sydney pilot boat service.

